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Report VI

Decent work and the informal economy

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CHAPTER I

DECENT WORK AND THE INFORMAL ECONOMY

Old and new forms of informality and informalization

It was exactly 30 years ago that the ILO first used the term "informal sector" to describe the activities of the working poor who were working very hard but who were not recognized, recorded, protected or regulated by the public authorities.[1] And it was more than a decade ago in 1991 that the 78th Session of the International Labour Conference discussed the "dilemma of the informal sector".[2] The dilemma was posed as whether the ILO and its constituents should promote the informal sector as a provider of employment and incomes or seek to extend regulation and social protection to it and thereby possibly reduce its capacity to provide jobs and incomes for an ever-expanding labour force. The 1991 Report emphasized that "there can be no question of the ILO helping to 'promote' or 'develop' an informal sector as a convenient, low-cost way of creating employment unless there is at the same time an equal determination to eliminate progressively the worst aspects of exploitation and inhuman working conditions in the sector".[3] The Conference discussion stressed that the dilemma should be addressed by "attacking the underlying causes and not just the symptoms" through "a comprehensive and multifaceted strategy".[4]

Today, there is still a dilemma – but one that is much larger in magnitude and more complex. Contrary to earlier predictions, the informal economy has been growing rapidly in almost every corner of the globe, including industrialized countries – it can no longer be considered a temporary or residual phenomenon. *The bulk of new employment in recent years, particularly in developing and transition countries, has been in the informal economy*. Most people have been going into the informal economy because they cannot find jobs or are unable to start businesses in the formal economy. In Africa, for instance, informal work accounted for almost 80 per cent of non-agricultural employment, over 60 per cent of urban employment and over 90 per cent of new jobs over the past decade or so.[5] But work in the informal economy cannot be termed "decent" compared to recognized, protected, secure, formal employment.

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[1] ILO: *Employment, incomes and equality: A strategy for increasing productive employment in Kenya* (Geneva, 1972).

[2] ILO: *The dilemma of the informal sector*, Report of the Director-General, International Labour Conference, 78th Session, Geneva, 1991.

[3] ibid., p. 58.

[4] ILO: *Provisional Record*, International Labour Conference, 78th Session, Geneva, 1991, reply of the Director-General to the discussion of his Report, pp. 27/7-27/8.

[5] J. Charmes, cited at Women in Informal Employment: Globalizing and Organizing (WIEGO) Second Annual Meeting, Cambridge, Massachusetts, 22-24 May 2000.

There has also been increasing *flexibilization and informalization of production and employment relationships* in the context of global competition and information and communications technology (ICT).[6] More and more firms, instead of using a full-time, regular workforce based in a single, large registered factory or workplace, are decentralizing production and reorganizing work by forming more flexible and specialized production units, some of which remain unregistered and informal. A global variation of flexible specialization is the rapid growth in cross-border commodity and value chains in which the lead firm or large retailer is in an advanced industrialized country and the final producer is an own-account worker in a micro-enterprise or a homeworker in a developing or transition country. As part of cost-cutting measures and efforts to enhance competitiveness, firms are increasingly operating with a small core of wage employees with regular terms and conditions of employment and a growing periphery of "non-standard" or "atypical" workers in different types of workplaces scattered over different locations and sometimes different countries. These measures often include outsourcing or subcontracting arrangements and more flexible and informal employment relationships.

The non-standard wage employment that flexible specialization has given rise to includes workers in sweatshop production, homeworkers, industrial outworkers and casual, temporary and part-time workers. However, not all of these flexible or "atypical" workers are "informal". For example, in advanced industrialized countries, temporary and part-time workers and teleworkers operating from home are normally covered by labour and social security legislation (although the level of pay and benefits is lower than for regular full-time workers and the prospects for career advancement, training or skills enhancement are limited). However, casual workers, subcontractors and agency workers often do not have labour and social protection. In developing and transition countries, home-based work and that done in sweatshops and by outworkers or casual workers are typical rather than atypical, but often are not recognized or protected by labour law or covered by social protection.

Increasingly, "informal sector" has been found to be an inadequate, if not misleading, term to reflect these dynamic, heterogeneous and complex aspects of a phenomenon which is not, in fact, a "sector" in the sense of a specific industry group or economic activity. The term "informal economy" has come to be widely used instead to encompass the expanding and increasingly diverse group of workers and enterprises in both rural and urban areas operating informally.[7] They differ in terms of type of production unit and type of employment status, as shown in the graphical matrix presented in the annex. They include own-account workers in survival-type activities, such as street vendors, shoeshiners, garbage collectors and scrap- and rag-pickers; paid domestic workers employed by households; homeworkers and workers in sweatshops who are "disguised wage workers" in production chains; and the self-employed in micro-enterprises operating on their own or with contributing family workers or sometimes apprentices/employees. It is important to note the diversity of those working in the informal economy because the problems and needs are different, for example, for those engaged in survival activities, for homeworkers, whose employment

[6] See, for example, G. Standing: *Global labour flexibility: Seeking distributive justice* (Basingstoke, Macmillan, 1999).

[7] See the matrix and glossary of terms in the annex to this report.

relationship with an employer is not recognized or protected, and for the self-employed and employers, who face various barriers and constraints to setting up and operating formal enterprises.

These different groups have been termed "informal" because they share one important characteristic: *they are not recognized or protected under the legal and regulatory frameworks. This is not, however, the only defining feature of informality. Informal workers and entrepreneurs are characterized by a high degree of vulnerability.* They are not recognized under the law and therefore receive little or no legal or social protection and are unable to enforce contracts or have security of property rights. They are rarely able to organize for effective representation and have little or no voice to make their work recognized and protected. They are excluded from or have limited access to public infrastructure and benefits. They have to rely as best they can on informal, often exploitative institutional arrangements, whether for information, markets, credit, training or social security. They are highly dependent on the attitudes of the public authorities, as well as the strategies of large formal enterprises, and their employment is generally highly unstable and their incomes very low and irregular. They are placed at a competitive disadvantage because they do not have the type of influence which those in the formal economy are often able to exert – influence which sometimes violates an essential feature of a market economy, i.e. free and equal access to markets based on efficiency rather than influence. There is no simple relationship between working informally and being poor, and working formally and escaping poverty. But it is certainly true that a much higher percentage of people working in the informal relative to the formal economy are poor, and even more true that a larger share of women relative to men working in the informal economy are poor.

Because informal activities are on the fringes of the law, public authorities sometimes confuse them with criminal activities and therefore subject them to harassment, including bribery and extortion, and repression. There are, of course, criminal activities in the informal economy, such as drug trafficking, people smuggling and money laundering (these are not dealt with in this report). There are also other illegal activities, including deliberate tax evasion. But the majority in the informal economy, although they are not registered or regulated, produce goods and services that are legal.

The term "informal" does not mean that there are no rules or norms regulating the activities of workers or enterprises. People engaged in informal activities have their own "political economy" – their own informal or group rules, arrangements, institutions and structures for mutual help and trust, providing loans, organizing training, transferring technology and skills, trading and market access, enforcing obligations, etc. What we do not know is what these informal rules or norms are based on and whether or how they observe the fundamental rights of workers.

Another useful way of describing the situation of informal workers and entrepreneurs is in terms of *seven essential securities which are often denied them: labour market security* (adequate employment opportunities through high levels of employment ensured by macroeconomic policies); *employment security* (protection against arbitrary dismissal, regulation on hiring and firing, employment stability compatible with economic dynamism); *job security* (a niche designated as an occupation or "career", the opportunity to develop a sense of occupation through enhancing competences); *work security* (protection against accidents and illness at work, through safety and health regulations, limits on working time and so on); *skill reproduction security* (widespread opportunities to gain and retain skills, through innovative means

as well as apprenticeships and employment training); *income security* (provision of adequate incomes); and *representation security* (protection of collective voice in the labour market through independent trade unions and employers' organizations and social dialogue institutions).[8]

However, for the ILO, the most meaningful way of looking at the situation of those in the informal economy is in terms of *decent work deficits*. Poor-quality, unproductive and unremunerative jobs that are not recognized or protected by law, the absence of rights at work, inadequate social protection, and the lack of representation and voice are most pronounced in the informal economy, especially at the bottom end among women and young workers.

Some of the problems and constraints to decent work faced by workers and enterprises are not confined to the informal economy; they are common to parts of the formal economy. For example, the "working poor" (who earn less than enough to generate a family income of US$1 per day per capita) can be found in both formal and informal jobs. There is no clear dichotomy or split between the "informal economy" and the "formal economy". What happens in the informal economy will have an impact on workers and employers in the formal economy, and vice versa. Informal enterprises create unfair competition for formal enterprises by not paying taxes or social security contributions for workers or avoiding other business costs incurred in the formal economy. Measures to reduce excessive business transaction costs and institutional barriers would promote the legalization of informal enterprises, benefit workers in these enterprises and also reduce the unfair competition for formal businesses. Therefore, it is useful to adopt the view that *formal and informal enterprises and workers coexist along a continuum, with decent work deficits most serious at the bottom end*, but also existing in some formal jobs as well, and with increasingly decent conditions of work moving up the formal end.

Decent work and the informal economy

The burgeoning significance of the informal economy in both new and old places and guises would be reason enough to revisit the "dilemma of the informal sector". But the *raison d'être* for this discussion at the International Labour Conference is the recognition that *all those who work have rights at work, irrespective of where they work* and the commitment of the ILO and its constituents to making decent work a reality for all workers and employers. *The goal is to promote decent work along the entire continuum from the informal to the formal end of the economy, and in development-oriented, poverty reduction-focused and gender-equitable ways.*

For the ILO and its constituents, decent work is a goal, not a standard, to be achieved progressively. A progressive approach would imply starting with the informal end, where most new job creation in recent years has been taking place, and promoting the transition upwards along the continuum toward the formal, decent and protected end. This would also be part and parcel of a decent work approach to poverty

[8] The work of the InFocus Programme on Socio-Economic Security has been highlighting the importance of these various forms of security and showing that they are in most cases not accessible to those in the informal economy. See web site at http://www.ilo.org/public/english/protection/ses/about

reduction. The focus is, first and foremost, on the informal end because decent work deficits, as emphasized above, are most pronounced in the informal economy.[9]

Therefore, an integrated and comprehensive strategy to achieve decent work along the entire continuum would:

- *in the immediate term,* give priority to *reducing decent work deficits in the informal economy*, importantly through ensuring that those who are currently in the informal economy are recognized in the law and have rights, legal and social protection and representation and voice;
- *in the short and medium term, enable those currently in the informal economy to move upwards along the continuum and at the same time ensure that new jobseekers and potential entrepreneurs are able to enter the more formal, protected and decent parts of the continuum.* Priority would be given to ensuring that workers and entrepreneurs have the capacity, flexibility and the conducive legal and policy frameworks to do so. Special attention would need to be given to those who are especially disadvantaged or discriminated against in the labour market, such as women, young jobseekers and migrant workers;
- *in the longer term, create enough employment opportunities that are formal, protected and decent for all workers and employers.* Already in 1991, the ILO had made it clear that the informal economy should not be developed or promoted as a low-cost way of creating employment. In the twenty-first century, decent work is certainly about much more than a job at any price or under any circumstances. Therefore, *new job creation should not be in the informal economy. The emphasis has to be on quality jobs in the upper rather than lower end of the continuum.*

To achieve decent work and reduce poverty both in the immediate and in the longer term, we need to *tackle the root causes – and not just the negative manifestations – of informality and informalization.* Measures to improve labour rights, enhance social protection, invest in knowledge and skills of workers or provide micro-entrepreneurs with access to credit and other support services are all critical for dealing with the manifestations of informality (which include poor labour standards, various forms of insecurity, stifled entrepreneurship) – but are not enough. The root causes include: the legal and institutional obstacles that make it difficult, if not impossible, for either enterprises or workers to become or to stay formal; the policies of national governments that often directly or indirectly constrain employment creation in the formal economy; the absence of or lack of access to strong and effective market and non-market institutions; demographic trends including large-scale rural-urban migration and the HIV/AIDS pandemic; direct and indirect discrimination against women and other disadvantaged groups; and the lack of representation and voice of those in the informal economy. Until and unless the root causes are dealt with effectively, there can be no sustainable move toward recognized, protected and decent work.

A process of legalization to bring informal workers and enterprises within the legal framework so that they are registered, recognized and protected is essential.

[9] In his Report to the 89th Session of the International Labour Conference, the Director-General emphasized that "it is in the informal economy and among the poor that the needs are greatest. If we claim universality, and that is exactly what my 1999 Report did – 'all those who work have rights at work' – then we are obliged to tackle these issues". ILO: *Reducing the decent work deficit: A global challenge*, Report of the Director-General, International Labour Conference, 89th Session, Geneva, 2001, p. 18.

Informal work can be treated as a legal problem in the sense that labour law does not apply or is not effectively enforced. On the one hand, legalization would involve reform of labour legislation and labour administration to give priority to the full application in the informal economy, as elsewhere, of the fundamental principles and rights at work. Laws must be enforced, the judicial system must be efficient and impartial and the ordinary worker must know his or her rights and entitlements and have access to the legal system. On the other hand, legalization would involve simplifying the regulations and procedures for doing business, improving the transparent and consistent application of rules and procedures and reducing the transaction costs. The aim would be to enhance the protective, standards-related and beneficial aspects of law and to simplify the repressive or constraining aspects so that there would be greater compliance by all enterprises and workers.[10]

But because the root causes of the informal economy are multifaceted, legalization alone is not enough to promote decent work. Strong and effective judicial, political, economic and other market and non-market institutions and equitable access to these institutions are essential.[11] Informal workers and enterprises also need access to resources, information, markets, technology, public infrastructure and social services; they need a "level playing field" (similar rights, facilities and access) vis-à-vis those in the formal economy. Those who are particularly disadvantaged or discriminated against may need special measures. For the poor without property rights, measures to ensure that the legal system records property and titles assets of the poor in standardized, simple and cost-effective ways would enable them to transform their assets into productive capital and investments. Most importantly, those in the informal economy need representation and voice as a fundamental right and an enabling right to enhance their access to a range of other rights at work.

It is also important to promote good governance and to reduce the costs to governments of informality and informalization. Often, informal workers and entrepreneurs are subject to harassment, bribery and extortion practised by corrupt officials and face prohibitive costs and complexity of bureaucratic procedures for setting up and operating enterprises. On the other hand and, importantly, those in the informal economy do

[10] In his reply to the discussion of his Report in 1991, the Director-General noted that "first of all, nobody, I believe, doubts that priority should be given to the full application, in the informal sector as elsewhere, of standards concerning fundamental human rights and those that protect them against inadmissible exploitation. ... Secondly, it is indisputable that simple laws and rules, and the flexible and efficient administration of these laws and rules are the prerequisites for the gradual legalization of the informal sector. ...Thirdly, we must be careful in our efforts to streamline not to destroy what is essential. With regard to labour legislation, each country has drawn up its own standards and legal provisions, often through the impetus of the ILO itself. Even if the precarious situation of the informal sector makes the immediate application of some of these standards impossible, and even if certain aspects of this legislation would gain from being simplified, there can be no question of going back on these social gains simply in order to allow the informal sector to become legalized". ILO: *Provisional Record*, International Labour Conference, 78th Session, Geneva, 1991, reply of the Director-General to the discussion of his Report, p. 27/7.

[11] For example, countries are more likely to be competitive and to develop – and hence to have a smaller informal economy – if there is an open flow of information to people, adequate protection of property rights, especially of the poor, enforcement of contracts and low cost of resolving disputes and access to the judicial system by people in general. See World Bank: *World Development Report 2002: Building institutions for markets* (Washington, DC, World Bank, 2002).

not pay direct taxes or social security contributions. Yet governments are expected to provide some access for informal operators to all the potential services of a responsible State, ranging from basic infrastructure to internal, external and social security – which have to be financed largely from the formal economy tax base. At the same time, to improve rights and protection in the informal economy, governments need to invest heavily in the structures of good governance to ensure enforcement of contracts, protect property rights, guarantee personal safety and social stability, reduce environmental and public health risks and so on. For a country as a whole, informality stifles the more efficient use of resources and improvements in productivity. As a result, the economy functions below its potential, with negative impacts on rates of economic growth.[12]

Aims and outline of the report

To provide a basis for a general discussion, the report sets out to:

- describe what and who is in the informal economy and explain why the informal economy has been growing;
- highlight the decent work deficits in the informal economy; and
- suggest the key elements of a comprehensive and integrated strategy to address both the underlying causes and the symptoms of informality and informalization and, thereby, to promote decent work along the entire continuum from the formal to the informal end of the economy.

Since, even after all this time, the policy debate is still hampered by differences in understanding and usage of a variety of terms, a graphical matrix and glossary of terms are presented in the annex to this report. The matrix deals with both enterprise relationships and employment relationships in the informal economy and shows how they are related. The glossary shows that concepts and definitions can be based on *statistical* criteria, on *legal* criteria or on the nature of the *employment relationship*. The annex also provides a country-specific example of the use of the matrix for describing who is in the informal economy.

Chapter II starts with an attempt to map the diversity, size and importance of the informal economy. This attempt underscores the serious need for more and better statistics and policy-relevant research. The very sketchy "maps" produced do, however, illustrate the tremendous heterogeneity in the informal economy and indicate that there are important forces at work expanding the informal economy and changing many of its characteristics. The second part of the chapter therefore examines these underlying forces.

Each of the next four chapters deals with one prong of the comprehensive and integrated strategy necessary to tackle the major root causes of informality and informalization, reduce decent work deficits in the informal economy and promote the transition of workers and enterprises out of the informal economy upwards along the

[12] See, for example, N. Loyaza: *The economics of the informal sector: A simple model and some empirical evidence from Latin America*, World Bank Policy Research Working Papers (Washington, DC, World Bank, 1997).

continuum into formal, protected and decent work. The sequencing of the chapters reflects the immediate, short-, medium- and long-term aims of the strategy set out in the previous section.

Chapter III argues that rights at work are as meaningful in the informal as in the formal economy. It draws attention to the relevance of the ILO Declaration on Fundamental Principles and Rights at Work and other international instruments to workers in the informal economy. Since ILO standards do provide a solid international basis for extending rights to the informal economy, the rights deficits are traced, instead, to how these standards are actually expressed and enforced through national law and practice on a gradual and selective basis and how those in the informal economy are empowered to claim their rights. The chapter reviews how existing labour legislation can practically and effectively be applied to the informal economy; whether the legal scope of rights should be amended or extended to address the increasing informalization of the labour force; and what can be done to enhance legal literacy so that informal workers understand and are better able to claim their rights. An important reason why informal workers may not enjoy the rights accorded under their national labour legislation is that the enterprises they work in are not legally registered and regulated. Therefore, the chapter also focuses on the business regulatory framework, the bureaucratic procedures and the related transaction costs that make it difficult, if not impossible, for micro- and small enterprises to become and to stay formal.

Chapter IV shows that the social protection deficit is especially critical for those in the informal economy, not only because of their job and income insecurity, but also because of the greater likelihood of their being exposed to serious occupational safety and health hazards. The HIV/AIDS pandemic has special implications for work and workers in the informal economy. Adequate social protection is key to decent work in the informal economy, particularly for the most vulnerable and unprotected groups of workers, especially women in hazardous jobs. The chapter argues that social protection for the informal workforce is not only a basic right but also a sound economic strategy – a more secure and healthier workforce increases productivity and makes formalization easier. The essential questions are: what forms and level of basic social protection should all workers enjoy; how can social protection for informal workers be organized; and who should be responsible for the cost of such protection. The chapter also discusses the promotion of occupational safety and health as an important complement, particularly on the prevention front, to social protection.

Chapter V emphasizes that freedom of association and the right to organize constitute a fundamental principle and a key enabling right. It is often because people in the informal economy are not organized and have no voice that they are not able to pursue their employment interests through bargaining collectively or lobbying with politicians and bureaucrats on concerns relating to legislation, access to infrastructure, property rights, social security, environmental concerns and so on. The chapter highlights the role of national and local governments and the framework of law and governance protecting and enforcing this right. It also examines how the social partners are building up social dialogue institutions and processes in the informal economy.

Chapter VI addresses the pivotal medium- and longer-term issue of how to move workers and entrepreneurs currently in the informal economy upwards along the continuum into formal decent jobs and how to ensure that new jobs are created in the formal and not in the informal economy. To achieve these aims, the chapter emphasizes measures, on the one hand, to invest in the workforce (with special attention to

the most vulnerable and disadvantaged) so as to promote their employability, productivity and flexibility to move upwards along the continuum. On the other hand, it also draws attention to measures to make it easier for micro- and small enterprises to start up and grow in the formal economy and to adopt high-road strategies that enhance productivity and provide quality jobs for workers. A conducive policy and legal framework, appropriate and supportive institutional structures and good governance are all essential if these measures are to be effective and if jobs created are to be decent and formal, rather than being in the informal economy.

Suggested points for discussion at the Conference are included at the end of the report.

CHAPTER II

WHO IS IN THE INFORMAL ECONOMY AND WHY IS IT GROWING?

WHO IS IN THE INFORMAL ECONOMY?

Mapping the informal economy so as to comprehend its size, composition and evolution is an extremely difficult and inevitably imprecise exercise. International comparability is not possible. This is because different definitions have been used, statistical information is collected on an ad hoc rather than a regular basis and reliability of data is inconsistent. Unfortunately, currently available national data do not consistently follow the definitions and do not allow disaggregation according to the matrix presented in the annex. So far, the ILO has compiled statistics only on employment in informal sector enterprises (cells 3 to 8 of the matrix), which was the concept used by the ILO and for which an internationally agreed definition adopted by the Fifteenth International Conference of Labour Statisticians (ICLS) exists. Importantly, the data available are on enterprises and workforce but not on the share of the informal economy in gross domestic product (GDP).[1]

The latest ILO published data[2] on informal sector enterprises are based on information from 54 countries, most of which still adhere to their own national definitions of the informal sector which are not entirely in line with the international statistical definition adopted by the 15th ICLS and the 1993 System of National Accounts (1993 SNA). Of these 54 countries, 21 use the criterion of non-registration of the enterprise, either alone or in combination with other criteria such as small size or type of workplace location, while 33 countries use small size as a criterion, either alone or in combination with non-registration or workplace location. Under the 1993 definition, only one category of informal wage workers are counted, namely employees of informal sector enterprises, and individual countries can decide what size of unregistered units to include in the informal sector and whether the agricultural sector and domestic workers should be covered.[3] Statistics on the size and contribution of several impor-

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[1] However, some recent efforts have been made in this direction. See J. Charmes: "Progress in measurement of the informal sector: Employment and share of GDP", in *Handbook of National Accounting. Household accounting: Experiences in the use of concepts and their compilation,* Vol. 1: Household Sector Accounts (New York, United Nations, 2000), pp. 153-168. It should be noted that the ILO does not collect data on the contribution of the informal sector to GDP because, by inter-agency agreement, the United Nations Statistics Division is responsible for collection of national accounts statistics.

[2] ILO: *Key Indicators of the Labour Market, 2001-2002* (Geneva, 2002).

[3] Efforts have been made to improve data collection on the informal economy. For example, in 1977 the Statistical Commission of the United Nations established an international Expert Group on Informal Sector Statistics, called the Delhi Group. The Delhi Group seeks to improve concepts, measures and methods for collecting data on the size and contribution of the informal sector. The ILO Bureau of Statistics has also been providing technical advice and assistance to countries to improve their data collection. The matrix presented in the annex to this report reflects part of this effort.

tant subsectors of the informal economy, including home-based workers, street vendors and domestic workers, are especially weak. These are the subsectors in which women tend to be concentrated.

The criterion of non-registration of the employees of the enterprise is used by some transition countries of Central and Eastern Europe to define unregistered employment.[4] About half the countries using labour force or household surveys include paid domestic workers, while the rest do not. Homeworkers are almost invariably excluded. This affects the comparability of data on women informal workers in particular. Often, only the main job is included, whereas large numbers of workers, particularly in developing and transition countries, may engage in more than one informal job, or in both formal and informal employment. Many countries, especially those in Latin America and Africa, have statistical information for urban areas only, while in some countries the scope is restricted to major metropolitan areas or capital cities. Given the possibly large numbers of workers in the "non-observed economy", the available statistics are likely to underestimate the actual numbers of workers and enterprises in the informal economy.

In view of the statistical and definitional limitations,[5] three main approaches have been taken in this chapter. First, it presents the main patterns and trends based on data collected by the ILO. Second, it highlights some principal features, mainly from a number of regional and country-specific studies that were commissioned as a background for this report.[6] It also points to the presence of child labour in the informal economy, using information from the International Programme on the Elimination of Child Labour (IPEC). The purpose of this section is purely illustrative: to reflect the diversity of informal activities as much as to show how incomplete our current information base is. Third, readers are referred to two forthcoming statistical reports which provide complementary material to this main report; the first is a compendium of ILO official statistics on employment in the informal economy, while the second, which is based on a combination of different official data sources, maps the informal economy, particularly in terms of the gender dimension. The last part of the chapter focuses on the underlying factors that have contributed to the growth and

[4] Country studies prepared for this report on Egypt and Brazil also use registration of employees as an indicator of informality, since it is the basis for the application of labour legislation, including the provision of job security and social protection. See A. El Madhi: *Report on decent work in the informal sector – Case of Egypt,* background paper prepared for this report (2001); M.C. Neri: *Decent work and the informal sector in Brazil,* background paper prepared for this report (Oct. 2001).

[5] The need for more and better statistics on the informal economy has prompted a practical suggestion from the ILO Bureau of Statistics: "With the aim of compiling and disseminating a wider range of available national statistics on the informal economy than at present, the Office should enlarge, and regularly update, the database that it has already established. The database should be made accessible via the Internet in a user-friendly form to reach as large an audience as possible. However, improvement of a database storing existing national data will not be sufficient to have more and better statistics on the informal economy. It will be accompanied by a programme of technical cooperation aimed at assisting countries which currently do not have statistics on the informal economy to develop such statistics, and assisting countries which already have statistics to improve the quality of these statistics, including their international comparability. To support such a programme, a manual containing methodological guidelines for the collection of data on the informal economy could be prepared, based on international standards and current best practices."

[6] These reports will be available on the ILO informal economy web site, at http://www.ilo.org/public/english/employment/infeco/index.htm

changing nature of the informal economy and highlights the main policy implications.

Employment in informal enterprises

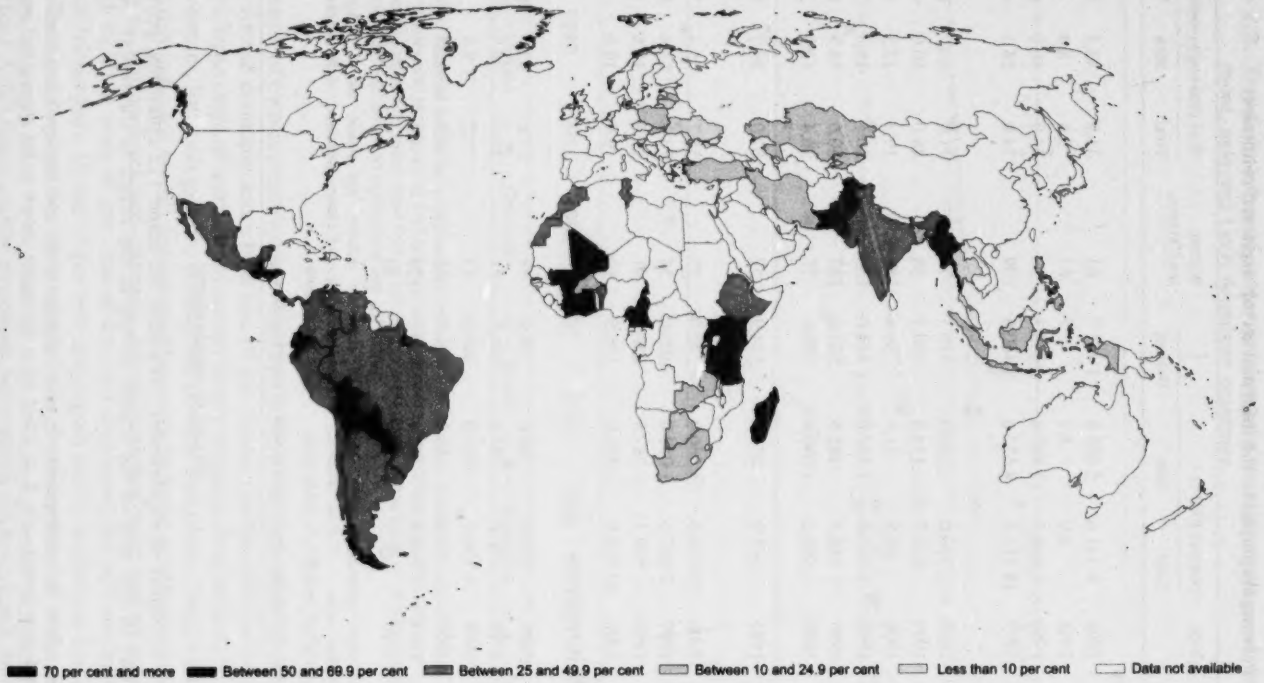
ILO data on *informal sector employment as a percentage of total employment* refer only to 42 out of the 54 countries for which information is available. Out of these 42 countries, 17 had more than half of their total employment in the informal sector and only four countries had less than 10 per cent of total employment in the informal sector. Among the regions covered, sub-Saharan African countries tend to have the highest proportion of informal to total employment, and the transition countries of Central and Eastern Europe and the Commonwealth of Independent States (CIS) have the lowest shares (see figure 2.1).

The figures presented in table 2.1 refer to a selection of countries from different regions which use national statistical definitions of the informal sector that are in line with the current international definition and are thus more comparable. The table shows that there is considerable variation among countries as regards informal employment as a percentage of total employment, from 5 to over 70 per cent. Among the regions, countries of West and East Africa, South Asia and the Andean region tend to have the highest proportions of informal to total employment.

In about half of the countries included in table 2.1, the share of informal in total employment is higher for women than for men. In some countries (Botswana, Brazil, Ethiopia, South Africa and Ukraine), there are more women than men in informal employment, even in absolute numbers. However, the gender bias in the informal economy is probably underestimated. Women are more likely than men to be in those informal activities that are undercounted, such as production for own consumption, paid domestic activities in private households and home work. Women are also more likely than men to be in small-scale economic units where their economic contributions are invisible and therefore not counted. They are often engaged in agricultural activities, which many countries exclude from the scope of their employment surveys for practical reasons. Data from other sources show, for example, that in India and Indonesia, the informal sector accounts for nine out of ten women working outside agriculture, while in Benin, Chad and Mali, more than 95 per cent of the female non-agricultural labour force is in the informal sector.

There are only 17 countries for which ILO time-series data are available that permit the evolution of informal employment over time to be monitored. They show that in virtually all cases, the share of informal in total employment in the corresponding branches of economic activity has increased during the 1990s (figure 2.2 gives some examples of trends in informal employment). Where there has been an increase in informal employment, it has grown for both men and women. In some countries, however, particularly in Latin America, women's participation in informal employment rose much more rapidly than men's.

Figure 2.1. Informal sector employment as a percentage of total employment, for countries where data are available


70 per cent and more
Between 50 and 69.9 per cent
Between 25 and 49.9 per cent
Between 10 and 24.9 per cent
Less than 10 per cent
Data not available

Source: ILO: *Key Indicators of the Labour Market 2001-2002* (Geneva, 2002), p. 231.

Table 2.1. Persons employed in the informal sector[1] (selected countries)

Country	Year	Number (000's)			Women per 100 men	% of total employment		
		Total	Men	Women		Total	Men	Women
Latin America								
Mexico	1999	9 141.6	5 693.8	3 447.7	61	31.9	32.7	30.7
Barbados[2]	1998	6.9	4.2	2.7	63	5.9	6.8	4.9
Peru[2, 3]	1999	3 606.1	1 897.8	1 708.3	90	53.8	48.9	60.6
Brazil[4]	1997	18 113.3	8 652.6	9 460.6	109	34.6	28.3	43.4
Africa								
Mali[3, 4]	1996	370.6	214.3	156.3	73	71.0	n.a.	n.a.
Benin[3]	1999	275.5	174.8	100.7	58	46.0	50.0	41.4
Botswana[4]	1996	60.5	21.1	39.4	187	19.3	12.3	27.6
South Africa[4]	1999	2 705.0	1 162.0	1 544.0	133	26.1	19.3	35.5
Ethiopia[2, 3]	1999	1 149.5	485.6	663.9	137	50.6	38.9	64.8
Kenya	1999	1 881.0	1 090.4	790.6	73	36.4	43.9	29.5
United Rep. of Tanzania[2, 5]	1995	345.9	221.0	124.9	57	67.0	59.7	85.3
Asia								
India	2000	79 710.0	63 580.0	16 130.0	25	55.7	55.4	57.0
Nepal[4]	1999	1 657.0	1 052.0	605.0	58	73.3	67.4	86.5
Philippines[2, 6]	1995	539.3	282.8	256.5	91	17.3	15.8	19.4
Turkey	2000	10 319.5	1 183.0	136.5	12	9.9	10.6	6.2
Central and Eastern Europe								
FYR Macedonia	1999	152.0	96.0	56.0	58	27.8	n.a.	n.a.
Slovakia	1999	450.0	343.5	106.5	31	23.0	30.5	12.9
Poland[2, 4]	1998	1 166.0	817.0	349.0	43	7.5	9.5	5.0
Lithuania[2, 3]	1997	93.0	68.3	24.7	36	8.5	11.9	4.8
Ukraine[2, 3, 4]	1997	755.9	345.4	420.5	122	4.9	4.5	5.3
Georgia[7]	1999	103.3	73.6	28.6	39	6.9	10.0	3.8

Notes: [1] In the same geographic areas, branches of economic activity, age limits, etc. [2] Agriculture included. [3] Urban areas. [4] Paid domestic workers included. [5] Dar-es-Salaam. [6] National Capital Region. [7] Agriculture included for urban areas. n.a.: Not available.

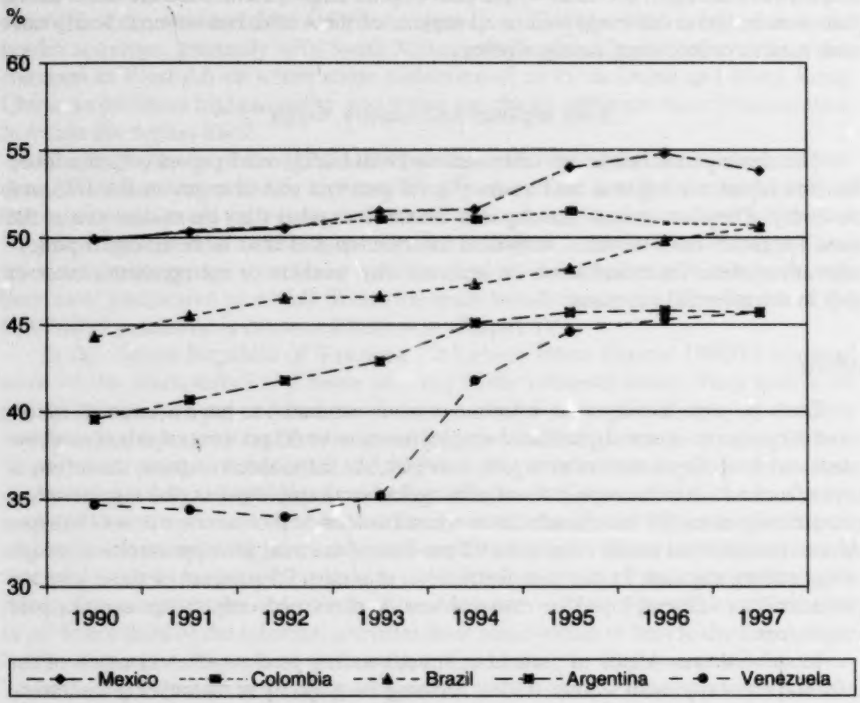
Source: ILO Bureau of Statistics, on the basis of official national data.

Status in employment

ILO data *on status in employment*,[7] available for some 112 countries, provide a broader picture of one axis of the matrix shown in the annex to the report. A high

[7] ILO labour force data distinguish three main categories of the total employed: wage and salaried workers or employees (matrix cells 2, 6, 7 and 10 in the matrix shown in the annex); self-employed (sometimes further disaggregated into employers and own-account workers) (matrix cells 3, 4 and 9); and contributing family workers (matrix cells 1 and 5). Of course, since it is possible to be a wage worker in an informal enterprise and an own-account worker in a formal enterprise, ILO data on status in employment do not allow precise measurement of employment relationships in the informal economy.

Figure 2.2. Trends in informal sector employment as a percentage of total employment, selected Latin American countries



Definition: Informal sector employment: all own-account workers (excluding administrative workers, professionals and technicians) and unpaid family workers, and employers and employees working in establishments with fewer than five or ten persons engaged, depending on the available information. Paid domestic workers and agriculture are excluded.

Source: ILO: *Key Indicators of the Labour Market 2001-2002*, op. cit., table 7.

proportion of own-account workers could be taken as an indication of low job growth in the formal economy and a high rate of job creation in the informal economy. And where a large share of workers are unpaid family workers, there is likely to be stagnant development, little job growth, widespread poverty and often a large rural economy. Using this indicator reveals important differences between developed and developing countries. Within developed countries, the proportion of wage and salaried workers is as high as 80 or even 90 per cent of the total employed, the self-employed typically account for between 10 and 15 per cent and unpaid family workers as low as 0 to 4 per cent. Transition economies have similarly high proportions of wage and salaried workers, although since 1995 there has been a declining trend. Self-employment has been increasing, sometimes as a secondary activity. Among some of the more developed Asian economies, the proportions of self-employment and unpaid family workers are very low. But in poor countries such as Bangladesh and Pakistan these

categories account for around 70 per cent of total employment. In Latin American countries, where the major share of new jobs has been in the informal economy, self-employment accounts for 25 to 40 per cent of total employment. Men are more likely than women to be self-employed in all regions of the world, but women clearly outrank men as contributing family workers.

Some regional and country "maps"

The descriptions below are taken mainly from background papers commissioned for this report on regional and country-level patterns and changes in the informal economy. They are at best sketchy and illustrative; what they do underscore is the need for much more detailed statistical information and also more in-depth policy-relevant studies, for example on the reasons why workers or entrepreneurs enter or stay in the informal economy.

Africa

Over the past decade or so, informal work is estimated to have accounted for almost 80 per cent of non-agricultural employment, over 60 per cent of urban employment and over 90 per cent of new jobs in Africa.[8] In sub-Saharan Africa, the informal sector accounts for three-quarters of non-agricultural employment, having increased dramatically over the last decade from about two-thirds. For women in sub-Saharan Africa, the informal sector represents 92 per cent of the total job opportunities outside of agriculture (against 71 per cent for men); and almost 95 per cent of these jobs are performed as self-employed or own-account workers and only 5 per cent as paid employees.

In sub-Saharan Africa in particular, street vending predominates in much of the informal economy, with women traders forming the majority in a number of countries. In Angola, Nigeria, South Africa and Uganda, it is estimated that over half of informal workers are engaged in the retail trade. Considering the large size of the informal economy, formal retailing establishments, distributors and manufacturers often use informal workers in order to expand their markets to low-income groups and those in rural areas who can be reached most easily by itinerant traders and street vendors.

All of the major sources of livelihood for women in informal activities, such as food processing, handicrafts, vending and hawking, have been affected by trade liberalization. Women basket makers, for example, have been displaced by cheap imports from Asia. In South Africa, vendors and hawkers have been replaced by foreign traders from other parts of the continent. Faced with competition, many women vendors end up working for these (predominantly male) newcomers with resulting cuts in income and independence. And even vendors are becoming linked to multinational corporation chains, with companies such as Unilever selling their soap through them and with Coca-Cola renting out kiosks.[9]

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[8] J. Charmes, cited at Women in Informal Employment: Globalizing and Organizing (WIEGO) Second Annual Meeting, Cambridge, Massachusetts, 22-24 May 2000.

[9] M. Carr; M.A. Chen: *Globalization and the informal economy: How global trade and investment impact on the working poor*, background paper prepared for this report (May 2001).

Cross-border trading is also very significant in the informal economy. South Africa, for example, attracts a large number of temporary immigrants who purchase goods to take back to their own or other countries for sale. It is estimated that nearly one-fifth of the women in the informal economy in Zimbabwe are involved in cross-border activities, primarily with South Africa and Zambia. Cross-border trade is also common in West Africa where some traders travel as far as Dubai and Hong Kong, China, to purchase higher-quality goods that are cheap, although most informal trade is within the region itself.

The implications of the HIV/AIDS pandemic for the informal economy are serious. All 20 countries with the highest HIV prevalence are in sub-Saharan Africa and life expectancy is said to have regressed to 47 years, reversing gains made over the last 30 years. More and more elderly persons and children – the two least equipped and most vulnerable groups – are being forced to find work for their survival as workers in their most productive years fall ill and the main breadwinners die. The impact of the HIV/AIDS pandemic is discussed further in Chapter IV.

In the United Republic of Tanzania the Labour Force Survey 1990/91 revealed some of the characteristics of those working in the informal sector. They tend to be poorly educated: 46 per cent had no education or had not completed primary schooling and less than 4 per cent had secondary or higher education. In terms of age structure, 75 per cent were aged between 20 and 49 years. The informal economy in this country is characterized by a high degree of self-employment (74 per cent of total informal employment); 14 per cent were unpaid family workers and only 12 per cent were paid employees. Informal enterprises are small-scale enterprises: 80 per cent of all informal enterprises were one-person businesses, while those with more than one person were mainly in transportation and construction. Most are without a formal establishment: more than a third of the informal activities took place within or beside the home of the business operator, 20 per cent were without fixed location, 10 per cent were at a market and 10 per cent were in an open space or on the street. Women working in the informal economy outside agriculture were heavily concentrated in activities that are an extension of their domestic chores, such as the sale of home-made beer, food stalls and other forms of cooked food sale; and the manufacturing of mats and fibre products, clay products, processed food products and cloth products. Men, on the other hand, had more diversified informal activities in trading, manufacturing, construction, community and personal services, transport and mining and quarrying. Men's activities were more likely to require investment capital. For both male and female informal workers, their main customers were individuals (94 per cent), followed by small enterprises.

The Dar es Salaam Informal Sector Survey 1995 carried out by the ILO found that 41 per cent of the operators worked in the informal economy because they could not find other work or had been retrenched, including from the public sector, 30 per cent because their family needed additional income, 10 per cent because of the freedom to determine their hours or place of work and only 9 per cent because of the good income opportunities.

Latin America

In Latin America, ILO data show that urban informal employment as a percentage of total urban employment grew from 52 per cent in 1990 to 58 per cent in

1997.[10] The increase in the informal economy was attributed, on the one hand, to growth of the labour force due to demographic factors, a rise in the activity rate, particularly of women, and substantial rural-urban migration, and, on the other hand, to contraction of employment in the formal economy. In terms of the composition of the informal economy, an increase was observed in employment in micro- and small enterprises, followed by growth in self-employment and a smaller increase in domestic work. The significance of definition can be seen from the fact that when a new definition was introduced in several Latin American countries in 1998, reducing the size threshold from ten to five workers, there was an immediate decrease in the estimated size of the informal economy by 10 percentage points, i.e. from 58 to 48 per cent of total urban employment.

Most of the early internal migration within Latin American countries was rural-urban migration, resulting in rapid and substantial urbanization. Most were economic migrants in search of not only better earnings but also better access to health care and educational facilities. These internal migrants find work mainly in the urban informal economy, as own-account workers or in domestic service. There has also been international migration with thousands moving from the poorer and conflict-ridden countries to the more developed ones within Latin America. For example, most illegal immigrants in Argentina from Bolivia, Paraguay and Peru work in informal or temporary jobs, for example, as domestic servants or garment workers and in construction. Some of the migration is seasonal, as in the case of many Nicaraguans who migrate to Costa Rica to work in the coffee and sugar cane harvests.

The literature on Brazilian labour markets often groups together self-employed units and "illegal" (i.e. unregistered) employees for purposes of defining and measuring the informal sector.[11] In Brazil, formal employment implies that the worker is an employee with a signed employment booklet (or card). Informal employment implies that the worker does not have a card, meaning that the employment relationship is not registered with the Ministry of Labour and is therefore not legally covered by the Labour Code. This leads to precarious employment and lack of social protection. According to the 1999 annual national household survey (PNAD), the rate of social security evasion in the private sector amounted to 62 per cent of the 64 million persons employed in this sector, up from 53 per cent in 1985. The rate of informality is higher for females (66 per cent) than for males (59 per cent). The rate of growth in informality during the period 1985-99 was also higher for females. The highest levels of social security evasion are found in agriculture (90 per cent) and construction (72 per cent). The survey also covered child labour in the 10 to 14 year age group. In 1998, 15 per cent of all 10 to 14 year olds in Brazil were working: 36 per cent of the age group in rural areas and 8 per cent in urban areas. More than twice as many boys as girls were found working. On a positive note, there has been a declining trend in child labour in the metropolitan areas over the last two decades, dropping from approximately 12 per cent of all 10 to 14 year olds in 1982 to below 4 per cent in 1999.

[10] F. Verderá: *Informality in Latin America: Recent trends, policies and prospects*, paper prepared for ILO Technical Workshop on Old and New Facets of Informality, Geneva, 2 Mar. 2001.

[11] M.C. Neri, op. cit.

Central and Eastern European and CIS countries

In the transition countries of Central and Eastern Europe and the CIS, the informal economy has many forms. These range from subsistence activities (subsistence farming on small private plots of land, petty trade, etc.), undeclared/unregistered labour, unregulated or unlicensed enterprises, shuttle trade with neighbouring countries or regions, to tax evasion activities (hiring of own-account workers instead of issuing regular labour contracts, double accounting done by enterprises, payment of part of wages "under the table", etc.) to illegal and criminal activities.

Prior to the transition period, the private non-agricultural sector was negligible or even forbidden in most countries of the Soviet bloc. Nevertheless, the informal economy did exist in the form of undeclared labour, for example in the construction and maintenance of family houses or flats, the provision of household and personal services, and production and sale of agricultural products, in addition to illegal activities such as illegal exchange of foreign currency, sale of drugs, etc. With the transition to a market economy, the informal economy has expanded rapidly, building at least in part on those segments that already existed. The root causes can be traced to the economic and social transformations, including the closure of many state-owned enterprises and privatization of others, retrenchment and the collapse of social insurance systems, and shrinking of real incomes of large parts of the population. Additional reasons include gaps in the legal system – legal reforms have typically fallen behind the new economic reality – as well as weak institutions and enforcement mechanisms.

A recent study carried out in Romania[12] found that 46 per cent of the unemployed persons surveyed engaged in some form of informal activity, of whom 28 per cent had more than two occupations in the "unofficial sector". Only a very small percentage of these persons were self-employed for reasons of tax evasion; they were predominantly working without a legal contract on a less-than-permanent basis. Most such jobs were occasional and poorly paid, practised by individuals rather than businesses. In Bucharest, where there were more job opportunities and reasonable unemployment benefits were paid regularly, there was less incentive to engage in informal activities. In rural areas where, despite the recent land distribution, welfare benefits were low and unemployment high, the motivation to engage in informal activities was high for reasons of survival. In addition, ownership of land above a certain size means that the person is considered as economically active and cannot apply for unemployment benefits.

In Poland, however, a special labour force survey on the "hidden economy" (unregistered labour) conducted in 1998 found that only 5 per cent of the population aged 15 years and older were active in the hidden economy. Unregistered activity was more common among men than women. Compared to a similar survey carried out in 1995, when the share of persons engaged in informal activities was 8 per cent of the workforce, there has been a fall in unregistered labour. This decline is mainly attributed to a general improvement in the labour market during this period and to the opening up of more job opportunities in the formal economy. There was also an improvement in labour and other legislation, and in the institutional mechanisms for enforcement.

[12] A. Pippidi; S. Ioniță; D. Mandruc: *In the shadows: Informal economy and the survival strategies of the unemployed in the Romanian transition*, Working Papers in Public Policy No. 18 (Romania, Romanian Centre for Public Policy, 2000).

In the Russian Federation, estimates of the number of persons involved in the informal economy vary enormously. According to one estimate, a maximum of 5 per cent of the total employed work informally as their main activity, while another 10 per cent regularly perform second jobs, both formal and informal, and around one-third do so occasionally.[13] The All-Russia Centre for Public Opinion Research (VTsIOM) conducted a special survey that found 11.6 per cent of the employed population engaged in informal employment as their main activity.[14] Other Russian estimates of secondary, usually casual, unregistered employment, range from 35 to 90 per cent of the employed population. In general, it can be said that unregistered labour is much more prevalent in the countries of the CIS than in Central European countries, and there is little evidence of its decline.

Asia

In Asia, the share of informal workers ranges from 45 to 85 per cent of non-agricultural employment and from 40 to 60 per cent of urban employment.[15] In parts of East Asia, namely Japan, the Republic of Korea, Singapore and Hong Kong, China, the informal economy declined as manufacturing and industry expanded and created jobs in the formal economy. Increasing emphasis on education and training enabled the labour force to keep up with the growing demand for more skilled workers. As this demand increased, social protection was expanded, wages rose and working conditions improved. One of the consequences was the need to identify cheaper sources of labour for the more repetitive and labour-intensive manufacturing industries such as ready-made apparel, toys and electronics. During the 1980s and 1990s, a lot of this type of manufacturing shifted, first to South-East Asia and then also to South Asia, with much of the sourcing done by companies still based in Japan, the Republic of Korea and Hong Kong, China.

One estimate in Thailand based on labour force surveys found that the informal economy declined from 60 to 57 per cent of total employment in Bangkok between 1980 and 1994 when there was an economic boom, but by 1999 it had climbed back to 60 per cent as an after-effect of the economic recession that started in 1997.[16] It is likely that similar fluctuations in the size of the informal economy took place in other affected South-East Asian countries as well. Changes in the composition of the informal sector have also been noted. During the economic boom period, there was an increase in the number of micro- and small enterprises, reflecting growing markets and demand for goods and services. In fact, a study in Yogyakarta, Indonesia, found that the informal economy grew faster during periods of economic prosperity than during economic recession, mainly owing to increased opportunities and the ability of

[13] S. Clarke: *Making ends meet in a non-monetary market economy* (Centre for Comparative Labour Studies, University of Warwick, Nov. 1998).

[14] Reference to this survey is made in the Employment Programme 1998-2000 of the Ministry of Labour and Social Development of the Russian Federation.

[15] J. Charmes, cited at the WIEGO Second Annual Meeting, Cambridge, Massachusetts, 22-24 May 2000.

[16] A.T.M. Nurul Amin: *The informal sector in Asia from the decent work perspective*, background paper prepared for this report (Oct. 2001).

informal enterprises to respond to new market opportunities without encountering the bureaucratic procedures and business practices that constrain firms in the formal economy in responding to market signals and increased demand.[17] When an economy is in decline, however, there is an increase in "survivalist" economic activities, reflecting the cushioning role of the informal economy in periods of economic crisis; such expansion entails marginalization of activity, and labour characterized by low productivity, low incomes and low standards of living.[18]

The case of China is particularly interesting because the informal economy was considered to be non-existent at the height of the command economy, when every worker was guaranteed a job by the State. But with the economic reforms of the 1990s, in particular the restructuring of state enterprises, which involved large-scale retrenchments, increasing pressure on the labour market and rising unemployment, growing rural labour surplus and massive rural-urban migration, the State has developed policies actively promoting the informal sector, defined as small-scale economically active units that are outside the category of legal entities. The sector consists of: (a) small or micro-enterprises, which are normally private enterprises; (b) household-based workshops involved in simple production and service activities; and (c) independent service providers. The workers in the informal sector are mainly urban laid-off employees and the unemployed, school drop-outs, surplus workers in enterprises that have cut back operations, retirees, rural migrant workers and persons working individually or with partners in non-agricultural production in rural areas. With informal jobs, many of these people are better off than they were before in terms of income. For example, according to a survey conducted by the All-China Federation of Trade Unions (ACFTU), of laid-off workers in ten cities and one county who found new jobs, about 65.7 per cent had higher incomes than before they were laid off. The statistics indicate that between 1996 and 1999, while employment in state-owned enterprises and collectives fell by 28 per cent, employment in urban private enterprises increased by 70 per cent, and self-employment and those working for the self-employed increased by 41 per cent. These changes were particularly striking for female workers, whose employment in private and "self-employed" businesses increased by 71 per cent. According to estimates, some 70 million persons are now working in the informal sector. Employment in the informal sector has grown most rapidly in Shanghai, where "informal employment assignment agencies/intermediaries" have burgeoned. In 1999, there were some 8,835 such agencies providing services such as household nursing and goods delivery. About 7,820 of them have survived and employ some 104,000 workers.[19]

A recent report,[20] based on information from surveys, secondary research, key informants, case studies and focus groups, provides some valuable insights into the

[17] idem: *The role of informal sector through the stages of development and cycles of economic growth: The Asia evidence*, paper presented at the ILO Technical Workshop on Old and New Facets of Informality, Geneva, 2 Mar. 2001, p. 19.

[18] ibid, p. 14.

[19] Research Group of the Department of Training and Employment, Ministry of Labour and Social Security, China: *A research report on skill training in the informal sector in China*, background paper prepared for this report (2001) (see also box 6.3 in Chapter VI of this report).

[20] E. Morris: *The informal sector in Mongolia: Profiles, needs, and strategies* (Bangkok, ILO/EASMAT, 2001).

Box 2.1. Taxes, fines and fees for the informal economy in Mongolia

- The police harass us home-made food vendors. We're only fighting to live and survive.
- I sell soap, detergents and shampoo in the market, but the Narantuul Market Administration works with a lot of bureaucracy. They hassle us by demanding hygiene certificates and record books. Whenever something happens, they rush to fine us and threaten to confiscate our goods and storage. They're very tough on us.
- I've opened an ice cream shop. The main difficulty we face is the bureaucratic hierarchy for licences and permits.
- My job is to sell fruit and vegetables on the street. Of course, I bribed the authority to get a good location.
- Together with my family, we sell girls' clothes, hair accessories and fashion jewellery purchased in Beijing. How much duty we pay in bringing goods from China depends solely on the customs officer of the day.
- I import spare car parts from Russia and the customs officer requires us to pay a bribe every time we cross the border.
- I do all types of shoe repair. Very often low-ranking policemen come and fine me without any reason. If I'm busy with other customers they threaten to fine or hit me. Some of them don't even pay for the services provided.
- I have permission from the Market Administration to sell flour. I have to give a sample of the flour to the hygiene authority each time it arrives so I can get permission to sell it. I also pay a daily tax. I really don't understand what this tax is for.
- After I retired from the army I set up a pawnshop. The greatest difficulty in getting started was obtaining the licence. So far I haven't faced many problems. But the district authorities sometimes visit us to collect contributions. They don't give us any idea about where the money goes.
- Although I received a pension as a retired medical doctor, I couldn't make ends meet so I started a credit service. I went through lengthy and bureaucratic procedures to get the business started. This included obtaining a business registration and a company seal, which involved various payments. Though it's not clear what these payments are for, to me they're just for the sale of paper.

Source: Excerpts from case study interviews, ILO/UNDP Support Services for Policy and Programme Development (SPPD) on the informal sector in Mongolia, cited in E. Morris: *The informal sector in Mongolia: Profiles, needs, and strategies* (Bangkok, ILO EASMAT, 2001), p. 41.

informal economy in Mongolia. For example, more than a third of the informal operators interviewed identified low consumer purchasing power as a major problem. Over a third cited the lack of an enabling business environment and legal and regulatory obstacles, including corruption and lack of proper governance and transparency in the enforcement of regulations (see box 2.1). The most common complaint related to the lack of financial capital. More than 80 per cent relied on their own or family savings, 11 per cent borrowed from individuals and very few used pawnshop operators or bank

loans. Other sources of start-up capital include the "suitcase trade" (bringing goods from other countries back for sale in Mongolia), revolving credit and overseas remittances. Several informal workers highlighted the importance of organizing to protect their interests and rights. Those in the informal economy also appear to have developed a number of strategies for dealing with risk and uncertainty, including using labour-intensive methods of production to cut costs; engaging in multiple activities (most workers, whether in urban or rural areas, have more than one job); selling a wide variety of products and frequently changing these to meet shifting market demand; efforts to make their products unique; ensuring that they have business locations that attract the most customers (which sometimes requires using connections or paying bribes); combining seasonal jobs with other work; entering into networking arrangements.

Advanced industrialized countries

Even in the advanced economies of Europe and North America, processes are at work creating growth in different segments of the informal economy. Studies[21] show that burdensome state regulation often provides an incentive for tax evasion, welfare benefit abuse and other activities aimed at earning invisible income. The increasing emphasis on flexible specialization has also eased the way for the introduction of non-standard forms of employment, although, as explained in Chapter I, not all forms of flexible work are "informal".

In 1998, the European Commission adopted a Communication on Undeclared Work,[22] which is defined as "paid activities that are lawful as regards their nature but not declared to the public authorities". It estimated that such activity accounts for between 7 and 16 per cent of the European Union's GDP – an equivalent of 10 to 28 million jobs or 7 to 19 per cent of total declared employment. The Commission identified the factors contributing to the existence of undeclared work as high taxes and social security contributions; legislation poorly adapted to new types of work; the weight of administrative procedures for registering certain jobs or restrictions on access to certain occupations; the presence of a large number of small and medium-sized enterprises in the industrial fabric; firms in declining sectors using undeclared labour as a means to survive in a competitive market; and cultural acceptance – participation in the informal economy is often perceived as an exchange of services that need not be declared.

Although it is difficult to assess the precise extent of the underground economy (especially since the definition differs from one Member State to another), the Communication divides the Member States into the following main groups. In the first group, the level of underground activity is relatively low at around 5 per cent of GDP; this includes the Scandinavian countries, Austria, Ireland and the Netherlands. At the other extreme, Italy and Greece have underground economies exceeding 20 per cent of

[21] M. Leonard: *Invisible work, invisible workers: The informal economy in Europe and the US* (Basingstoke, Macmillan, 1998) and idem: "Coping strategies in developed and developing societies: The workings of the informal economy", in *Journal of International Development* (Chichester), Vol. 12, No. 8, Nov. 2000.

[22] European Commission: *Communication of the Commission on Undeclared Work* (Brussels), COM (98)-219. See also European Industrial Relations Observatory On-line: "Commission targets undeclared work", http://www.eiro.eurofound.ie/1998/04/Feature/EU9804197F.html

GDP. Other Member States lie between these two extremes. In the Scandinavian countries, Belgium, the Netherlands and the United Kingdom, undeclared work tends to be performed by young, skilled males, whereas illegal immigrants are perceived to be a big problem in Austria, France Germany (although the data suggest that they are not the dominant group in the underground economy). In southern Europe, undeclared workers tend to be young people, women homeworkers and illegal immigrants. See table 2.2 for a breakdown by Member States of the principal characteristics of undeclared work.

Table 2.2. The underground economy in the European Union Member States

Country	(% of GDP)	Principal characteristics of undeclared work
Austria	4-7	One-tenth of all persons of working age engaged in some form of undeclared work; 40% in construction and crafts, 16% in other trade and industrial enterprises, 16% in services, 13% in entertainment and 15% in other trades and services.
Belgium	2-21	Mainly carried out by young, semi- or low-skilled males. Sectors most affected are catering, retail trade, construction, textiles, transport, household services and agriculture.
Denmark	3-7	Carried out by skilled and unskilled workers, as well as by students, mostly in the private services sector (babysitting, cleaning) and in construction.
Finland	2-4	Mainly skilled young men working in construction, hotels/catering, retail trade and real estate services.
France	4-14	Nationals as well as legal and illegal immigrants involved; up to 60% in the services sector (mainly hotels and catering) and 27% in construction.
Germany	4-14	Mainly carried out by illegal immigrants and those already in declared employment. Main sectors are construction, hotels and catering, transport and road haulage, cleaning and cultural activities.
Greece	29-35	Mainly legal and illegal immigrants but also pensioners, students and home-based women workers. Main sectors are textiles, tourism, transport and household services.
Ireland	5-10	Students and those already engaged in official economy, mainly in construction and distribution.
Italy	20-26	Mainly carried out by youth, women and pensioners in agriculture, construction, private services and textiles.
Luxembourg	n.a.	Some undeclared work in the construction sector.
Netherlands	5-14	Skilled workers with two jobs in hotels and catering, taxi and courier services, metal industry and clothing industry.
Portugal	n.a.	Mainly illegal immigrants and women in textiles, retail trade and construction.
Spain	10-23	Young workers, women and skilled workers in agriculture and services, including private services.
Sweden	4-7	Mostly carried out by self-employed or skilled males in private services, catering and cleaning.
United Kingdom	7-13	Men and skilled workers in construction, street markets and hotels and catering.

Note: n.a.: not available.

Source: European Industrial Relations Observatory On-line: "Commission targets undeclared work", http://www.eiro.eurofound.ie/1998/04/Feature/EU9804197F.html

In the United States, forms of informal employment are increasingly observed in sectors such as electronics and garment manufacturing, where workers from Latin America and Asia, especially women, are often employed under sweatshop conditions.[23] Other forms of flexible work have also been growing and changing the nature of labour markets in the United States and Canada, as well as in other member States of the Organisation for Economic Co-operation and Development (OECD). These have new implications for employment relationships and appropriate coverage by labour and social protection legislation. For example, in addition to the growth of temporary and part-time employment, firms have been contracting out the employment function by turning to private employment agencies, leading to a significant increase in the number of agency workers (in Canada, the number of persons employed by temporary work agencies tripled in the 1980s). Teleworking has also been increasing rapidly (one study in 1994 estimated that there were 7 million teleworkers in the United States and forecast that this would increase to 25 million by 2000).[24] There is also a relatively small but significant group of "consultants" who "are typically operating outside the mainstream regulatory system, so that their employment is not impeded by it" – but they cannot be considered as, or compared to, other informal workers in that they are actually self-employed with niche skills, including management consulting, and they typically have individualized contracts tailored to the needs of the firm and their capacities.[25]

As the most advanced industrialized nation in Asia, it would be expected that Japan would have only a small informal economy. However, there are some indications that it is more widespread than would be expected. The 1995 Population Census, for example, found that out of 64 million employed persons, 8 per cent were self-employed without any employees, 7 per cent were family workers and less than 1 per cent were persons engaged in home handicrafts. The vast majority engaged in family work (82 per cent of all family workers) and home handicrafts (94 per cent of all homeworkers) were women. Family workers were primarily concentrated in agriculture, the wholesale and retail trade and catering. Annual surveys, however, indicate that home work steadily declined from 1995 to 1999.

Child labour in the informal economy

Any effort to map the informal economy cannot ignore the presence of child labour. Most cases of child labour are to be found in the informal economy, often in the most hidden and hazardous forms of work, including forced labour and slavery. Children are the most vulnerable to all the negative aspects of informality. Of the estimated 211 million working children in the world between the ages of 5 and 14 years, at least 111 million are involved in hazardous and exploitative work.[26] Sub-Saharan Africa

[23] United Nations: *1999 world survey on the role of women in development: Globalization, gender and work* (New York, 1999), p. 23.

[24] See G. Standing: *Global labour flexibility: Seeking distributive justice* (Basingstoke, Macmillan 1999), pp. 105-112.

[25] ibid, p. 107.

[26] Figures provided by IPEC.

has the highest relative number of working children: roughly 29 per cent of children in the 5 to 14 age group are working. The comparable figures for Asia and Latin America are 19 and 16 per cent respectively. In absolute figures, Asia has the largest numbers of working children. Child labour also exists in industrialized countries. In southern European countries, for example, child workers are found in seasonal activities, street trading, small workshops and home-based work. Child labour is also emerging in several Central and Eastern European and Central Asian transition economies.

The number of working children tends to increase in times of economic crisis. For example, poor Indonesian families attempted to adjust to the financial crisis of the second half of the 1990s by using more child labour. A much higher share of children and youth were engaged in agricultural work in 1998 than in the previous year, although their employment in non-agricultural work in construction, trade and manufacturing fell. But perhaps the most striking example of the informalization of work as a consequence of the economic crisis was the increase in work performed on the street, primarily at busy intersections in larger cities. It was estimated that the number of street children increased from between 10,000 and 15,000 prior to the crisis to around 50,000 by mid-1998, one-third of whom were believed to be located in Jakarta and surrounding districts.[27]

Among the 211 million child workers, about 102 million are girls, who tend to be more vulnerable than boys, to start working at an earlier age, to be paid less for the same work, to work longer hours and in hidden and unregulated sectors where they are particularly vulnerable to exploitation and abuse, including child prostitution, slavery, sale and trafficking, debt bondage and serfdom. Although available data show that more boys than girls work, the number of working girls may be underestimated by many statistical surveys that do not take into account the often substantial non-economic activities carried out in and around the household. Girls often have to drop out of school so that their parents can go to work or to take care of younger children or sick or disabled members of the household. If such work were taken into account, the number of girls at work could even exceed that of boys.

One of the most visible forms of child work in the informal economy takes place on the streets, particularly of large cities. The number of street children has been increasing in the past decade in places experiencing armed conflict, such as Freetown in Sierra Leone and Monrovia in Liberia, in sub-Saharan Africa as a result of the HIV/AIDS pandemic and in the cities of South-East Asia as a result of the economic crisis of the late 1990s. Many children pursue activities such as begging, thieving and other petty crimes but many more wash cars, shine shoes, hawk, deliver goods and perform other jobs in the street to obtain the means of daily survival for themselves and sometimes their families.[28]

Other forms of child labour in the informal economy include family or home-based work (domestic work, subcontracted piecework); manufacturing (from fireworks to matches to clothing and furniture); brick-making, stone carving, weaving;

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[27] C. Manning: *The economic crisis and child labour in Indonesia*, ILO/IPEC Working Paper 2000 (Geneva, ILO, 2000), p. 21.

[28] See M. Ueda: *Desk review of IPEC action programmes on the worst forms of child labour: Street working children (1992-2000)* (Geneva, ILO, Sep. 2000), draft.

hard physical work such as scavenging, construction and commercial agriculture; and even prostitution and drug trafficking.

Existing data reveal that the incidence of child labour is on average twice as high in rural as in urban areas. The vast majority of child workers are engaged in agricultural and related activities, and rural children, particularly girls, tend to begin economic activity at an early age, some as young as five years.

THE FACTORS SHAPING AND RESHAPING THE INFORMAL ECONOMY

The above examples reflect the tremendous heterogeneity in the informal economy and suggest that there are important forces at work that are expanding the size and changing many of the characteristics of the informal economy and linking the informal and formal economies – and these forces are seldom gender-neutral. This section highlights some of the main forces at work, with the aim of showing that they are the "interaction of multiple economic, political, institutional and sociological factors. This conclusion is at odds with the analysis attributing the existence of the informal sector to a single cause (with the law as the main determining factor)".[29] Subsequent chapters of the report address these underlying causes of informality.

Legal and institutional frameworks

Given that informality has often been described as those activities outside or on the margins of the law, it is essential to examine the legal and institutional framework in a country. Three types of legislation and regulations are important: commercial or business regulations governing the establishment and operation of enterprises; the laws pertaining to property rights, which could affect the ability to transform assets into productive capital; and labour legislation governing employment relationships and the rights and protection of workers. What needs to be understood is whether existing laws and institutions are poorly or well designed in terms of their influence on the costs and benefits to enterprises and workers of becoming and staying formal or informal. "More emphasis needs to be placed on an analysis, from the perspective of persons trying to develop a small enterprise, of the costs of and the barriers to being regulated; and, from the perspective of wage workers hired under informal contracts with no protection, of the costs to them when their employers avoid labour regulations".[30] This is attempted in Chapters III and VI.

Formal economic activities are more likely in an environment which is conducive to investment and business and in which compliance with regulations is not prohibitively costly. Informality is often the response of operators who are unable to comply with difficult, irrelevant or prohibitive rules and regulations or who do not have access to market institutions. The rules and regulations that impact on economic activities determine transaction costs. "Where such rules and regulations are cost effective, are

[29] C. Maldonado: "The informal sector: Legalization or laissez-faire?", in *International Labour Review* (Geneva), Vol. 134, No. 6, 1995, p. 727.

[30] M.A. Chen; R. Jhabvala; F. Lund: *Supporting workers in the informal economy: A policy framework*, background paper prepared for this report (Nov. 2001), p. 12.

predictable and provide the requisite business information, people are more likely to conform to and pay for them. Rules which are poorly designed, are burdensome and involve dealing with corrupt and inefficient bureaucracies increase transaction costs, discourage compliance, impede economic participation and encourage endemic corruption, thus preventing entrepreneurs from participation in the formal economy."[31] Transaction costs can include: obtaining a licence to conduct a business; acquisition of title to land or acquiring a lease; access to credit facilities; enforcement of contracts and access to the law; obtaining telecommunication, electricity and other utilities such as water; familiarization and compliance with a mass of laws and regulations; obtaining information on, and access to, raw materials, prices, potential customers and sources of supplies and goods and services; labour and social charges; and tax costs.[32] Research shows that these costs are often well beyond the capacity of small enterprises and potential entrepreneurs.

Simplifying business rules and procedures and reducing transaction costs would promote entrepreneurship and facilitate formalization. Simplifying laws and regulations does not mean total deregulation. It is important to remember that laws do not only constrain entrepreneurship and formalization, they can also play a facilitating or enabling role and serve to enforce fundamental principles and rights. An enabling legal system can offer security, incentives, safeguards and protections, limit liabilities, provide rules of succession and allow debt conversion. Informal enterprises at present do not have access to these enabling laws and therefore do not enjoy the benefits enjoyed by formal enterprises.

Laws governing property rights and titling of the assets of the poor have also been identified as a cause of informality in several developing countries. The research conducted by Hernando de Soto and the Institute for Liberty and Democracy (ILD) that he created in Peru argues convincingly that the poor do hold assets but these represent "dead capital" because they are held in forms not recognized by the legal system and hence cannot be used to generate productive capital that the poor can use for formal economic activities.[33]

When enterprises are outside the legal and regulatory framework, so too are their workers, who then do not enjoy the protection of the law. Workers may also be informal because current labour legislation does not cover or has not been applied to their "non-regular" or atypical employment status. In many countries, labour legislation is designed to protect "employees" rather than "workers" and to apply only where there are clear employer-employee relationships. Reforms of labour legislation have not kept pace with the kinds of changes in work organization associated with flexible specialization and global chains (described below).

The institutional structures and procedures at national and local levels also play a crucial role in encouraging formality or informality – they determine how laws and regulations are implemented, the transaction costs of compliance with legislation and

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[31] S. de Silva: *The informal economy: Issues and challenges*, draft paper, 2001.

[32] ibid.

[33] *Economic Reform Today:* "Securing property rights: The foundation of markets", an interview with Hernando de Soto by the Center for International Private Enterprise, http://www.cipe.org/ert/e19/desoto.php3 , 20 Dec. 2001. See also H. de Soto: *The mystery of capital: Why capitalism triumphs in the West and fails everywhere else* (New York, Basic Books, 2000).

regulations, and access to markets, information, resources and technology. Strong and efficient institutions that are not corrupt, that offer equitable access to all potential clients, that are transparent and consistent in the application of rules and regulations, that protect and enforce contractual obligations and that respect the rights of workers, would encourage greater compliance with both business and labour regulations and promote decent work for all.

Better understanding of the institutional inefficiencies, including identification of the specific institutional structures and procedures that place constraints on formalization, could facilitate the reform of such institutions. It is also important to understand the extra-legal institutions, norms and procedures regulating the activities of workers and enterprises in the informal economy. Some of these informal institutions and norms may be more "democratic" than those in the formal economy, and it would be useful to build upon their strengths and accessibility.

Economic growth, employment creation and the informal economy

One of the key factors explaining the informal economy is related to patterns of economic growth. Some countries have experienced little or no growth in recent decades, while others have concentrated on capital-intensive growth, resulting in "jobless growth". In both contexts, not enough jobs are created for all those seeking work, forcing people to find employment or to create their own work in the informal economy. Many developing countries have adopted policies favouring foreign investment, large companies and manufacturing industries and have neglected the agricultural sector – but most of their population is still in rural areas and still largely dependent on agriculture. In countries experiencing "high-tech" growth, the demand for high skills relegates most of those without such skills to the informal economy. On the other hand, in some countries or industries there can be "growth from below", where micro- and small enterprises are very dynamic and create more jobs than the formal economy.

In this context, the ILO's Global Agenda for Employment[34] is critical. To meet the challenge of creating 1 billion productive jobs in the next decade, the Global Agenda for Employment places productive employment at the heart of economic and social policies, and calls for the coordination of employment policy at global and national levels. By effectively harnessing the forces of change (namely trade, finance and investment, technologies, entrepreneurship and patterns of production and consumption) and managing change well (through skills development, promoting social protection and occupational safety and health, active labour market policies, appropriate investment and tax policies and social dialogue), more and better jobs should be created, with enhanced potential for economic growth. The need for people to opt for poor-quality jobs in the informal economy would then be greatly reduced. Currently, most people enter the informal economy because they cannot find employment in the formal economy and cannot afford to be openly unemployed. The critical issue of creation of quality jobs in the formal economy that provide protected and decent employment is addressed in Chapter VI.

[34] ILO: *A Global Agenda for Employment: Discussion paper*; and idem: *A Global Agenda for Employment: Summary*, Global Employment Forum, Geneva, 1-3 Nov. 2001.

It is also worth remembering that the informal economy contributes to economic growth in at least two ways. First, the output and the low wages of informal workers assist the growth of industries, including key export industries, in many countries. Second, the output of informal enterprises also contributes to economic growth. Recent attempts to estimate the contribution of the informal economy to GDP put the share at between 7 and 38 per cent of total GDP in 14 countries in sub-Saharan Africa, between 16 and 32 per cent in Asia and between 12 and 13 per cent in Mexico.[35] In India, the National Council of Applied Economics Research calculated that the informal economy – termed the "unorganized sector" – generates about 62 per cent of GDP, 50 per cent of gross national savings and 40 per cent of national exports.

Economic restructuring, economic crisis and the informal economy

Another set of factors has to do with economic adjustment related to economic reforms or economic crises. It is now widely acknowledged that the stabilization and structural adjustment policies of the 1980s and 1990s, which in many countries resulted in growing poverty, unemployment and underemployment, contributed to the spread of the informal economy. The main authors of these policies, the international financial institutions, are therefore now emphasizing poverty eradication and sustainable development, although they still fail to give adequate attention to the employment implications of their policies.

The financial crisis in the second half of the 1990s in many Asian economies was also an important underlying factor. ILO research showed the informal economy expanded under the impact of the financial crisis, which reversed the previous gains of the working poor resulting from the tight labour market situation created by the rapid economic growth of earlier years in the East and South-East Asian countries. The swelling of the informal economy during the financial crisis reflects the "growth of more marginal economic activities and involvement of increased number of workers with lower average productivity and income".[36] In Thailand, for instance, during the economic boom period, it was productive informal activities, such as furniture making, that grew and there were fewer Thais available to work as domestic workers or waste pickers. But with the economic recession, it was these lower-end activities that resurfaced.

Especially in the transition economies, but elsewhere as well, economic restructuring and the downsizing of enterprises left many retrenched workers with little choice but to move into the informal economy. For instance, the restructuring of state-owned enterprises in China, where some 9 million workers were laid off in urban areas, has been an important reason behind government policies to promote flexible informal employment as the most important means of solving employment pressures.

In many developing countries, wages in the public sector are insufficient to support a family, and workers (or family members) are forced to supplement their incomes by finding work in the informal economy. This is a widespread pattern in Africa,[37] but is not limited to the developing countries.

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[35] M.A. Chen; R. Jhabvala; F. Lund, op. cit., pp. 14-15. The estimates were made by J. Charmes with support from the United Nations Statistics Division.

[36] A.T.M. Nurul Amin: *The informal sector in Asia from the decent work perspective*, op.cit.

[37] A.M. Tripp: *Changing the rules: The politics of liberalization and the urban informal economy in Tanzania* (Berkeley and Los Angeles, University of California Press, 1997).

Unemployed persons in transition countries and even in developed countries are often not able to get by on unemployment benefits, if they are available, and people have to supplement this income from a variety of informal activities or barter, taking care to avoid formal recognition that might lead to a loss of entitlements.[38]

Poverty and the informal economy

Being poor means not being able to afford to be openly unemployed, and almost any job may seem to be better than no job. Hence, increasing poverty is one of the underlying reasons for the growth of the informal economy. However, the links between working informally and being poor are not always simple. On the one hand, not all jobs in the informal economy yield paltry incomes. The background studies prepared for this report indicate that many in the informal economy, especially the self-employed, in fact earn more than unskilled or low-skilled workers in the formal economy. There is much innovation and many dynamic growth-oriented segments in the informal economy, some of which require considerable knowledge and skills. One of these is the fast-growing information and communications technology (ICT) sector in the large cities of India.[39] On the other hand, being in the formal economy is no guarantee of escaping poverty. Sadly, many formal workers never break out of extreme poverty, especially in developing and transition countries, where remuneration in the civil service and state-owned enterprises may not constitute a living wage.

However, there is no denying that it is poverty that forces most people to take up unattractive jobs in the informal economy, and the low incomes that such jobs yield create a vicious cycle of poverty. On the whole, average incomes in the informal economy are much lower than in the formal economy. The working poor are concentrated in the informal economy, and especially in rural areas. Seventy-five per cent of poor people in developing countries live in rural areas and engage in activities which, for the most part, lie outside the bounds of the formal organized economy, whether in agriculture or in rural non-farm activities.[40] This is why policies to address the informal economy and at the same time to reduce poverty cannot afford to ignore rural agriculture.

The pattern throughout the world appears to be the same: informal incomes decline along the range of employment status, from employer to self-employed and own-account workers to informal and casual wage workers to industrial outworkers or homeworkers. The link between working in the informal economy and being poor is stronger for women than for men. Not only do a higher percentage of women than men work in the informal economy, women are concentrated in the lower-income segments, working in survival activities or as casual wage workers or homeworkers. In

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[38] M. Leonard: *Invisible work*, op. cit.; and idem: "Coping strategies in developed and developing societies", op. cit. See also K. Gërxhani: *Politico-economic institutions and the informal sector: A spontaneous free market in Albania*, discussion paper (Amsterdam, Tinbergen Institute and University of Amsterdam, 2000); ILO: *Report of the Technical Workshop on Old and New Facets of Informality, in* Geneva, 2 Mar. 2001.

[39] N. Kumar: "Informal sector in India: Case of micro-enterprises in services sector", in A.S. Oberai and G. K. Chadha (eds.): *Job creation in urban informal sector in India: Issues and policy options* (New Delhi, ILO/SAAT, 2001).

[40] ILO: *A Global Agenda for Employment: Summary*, op. cit., p. 6.

the higher-income segments of the informal economy, women tend to be engaged in smaller-scale operations with less growth potential compared to those performed by men.

The close links between poverty and the informal economy mean that measures to deal with the problems of the informal economy and to provide decent work for those currently engaged in it would also help to eradicate poverty. Conversely, effective poverty eradication policies would go a long way towards enabling those currently in the informal economy to move up the continuum to more productive, protected and decent work. For example, as described earlier, the ILO Global Agenda for Employment emphasizes that appropriate national and international policies that harness and manage well the forces of change can ensure that economic growth, productive employment and poverty reduction can all move in the same positive direction. Another example is the three-pronged strategy for attacking poverty proposed in the *World Development Report 2000/2001*,[41] which includes many elements of the decent work approach presented in this report.

Demographic factors and the informal economy

In trying to understand the growth of the informal economy, we cannot ignore demographic trends. Especially in developing countries, the growth of the informal economy is linked to issues of surplus labour; it is therefore important to have background information on the size and growth of the labour force, the education and skills of those entering the labour market, rural-urban migration and the rate of urbanization. Female labour force participation has been increasing faster than that of men in almost all parts of the world in recent decades. Both out of choice and out of necessity, more and more women have been entering the labour force, but they very often end up in jobs at the lower end of the informal economy – because they tend to be less well equipped in terms of education and training, have less access to resources, still face various forms of direct and indirect discrimination and bear the brunt of family responsibilities. Women are much more likely than men to leave and re-enter the labour force at different times over their life cycle, but because they do not have access to lifelong learning, they often end up in informal jobs.

In many countries, an important contributory factor is escalating rural-urban migration. Migrants in search of often non-existent formal jobs end up in the informal economy. In China, for example, the Government has identified the large number of rural-urban migrants (some 60 million) as an important reason for the need to create jobs in the informal economy. Of course, at the same time, there are policy implications for improving conditions in rural areas so as to stem the massive flows to urban areas. In many countries, the agricultural sector has been relatively neglected in the

[41] World Bank: *World Development Report 2000/2001: Attacking poverty* (New York, Oxford University Press, 2001). The three-pronged strategy is based on promoting opportunity (for jobs, credit, roads, electricity, markets for the produce of the poor, and the schools, water, sanitation and health services that underpin the health and skills essential for work); facilitating empowerment (through changes in governance that make public administration, legal institutions and public service delivery more efficient and accountable to the poor and through strengthening the participation of poor people in decision-making); and enhancing security (to reduce vulnerability to various forms of insecurity and to help the poor in risk management).

globalization drive. In fact, high levels of agricultural subsidies in the developed countries may be a contributing factor to rural poverty in the developing countries.

The evidence from developed countries also shows that cross-border migrants, especially those who have recently arrived in the country and do not speak the language, or women who are dependants of the primary migrant, tend to concentrate in the informal economy because there are few other jobs open to them. The regional patterns for Latin America described above also highlighted the movement of cross-border migrants into informal, temporary or seasonal jobs. Illegal migrants are most likely to be found in sweatshops in the informal economy or in jobs where they do not come to the attention of the public authorities and therefore are most vulnerable to exploitation and abuse.

As mentioned above, the HIV/AIDS pandemic has had devastating effects on families and social support structures, especially in Africa, and surviving family members, including children, may have no other option but to seek informal work to survive. Often it is the oldest and youngest family members who are left, and they are the ones most likely to lack skills or resources. Attention should therefore be given not only to people living with HIV/AIDS, but also to their family members.

Globalization and the informal economy

Globalization has often been cited as a major reason for the proliferation of the informal economy. The inference tends to be negative – that globalization is to blame. However, this can be misleading and is not helpful, especially for policy purposes. What is more useful is to determine how the different globalization processes affect employment opportunities and the welfare of workers – there can be both positive and negative impacts, and much will hinge on domestic and international policies.

First, the various globalization processes should be distinguished: trade and the expansion in the volume and variety of cross-border transactions in goods and services; foreign direct investment (FDI) and a dramatic increase in international capital flows; the rapid and widespread diffusion of technology; and international labour migration. These globalization processes have changed the boundaries of markets, increased global integration and heightened competitive pressures.

On the positive side, globalization has led to new opportunities in terms of new jobs for wage workers and new markets for the self-employed. In some developing countries, the share of transnational corporations' (TNCs) affiliates in host country employment is very large; for example, affiliate-based employment in the manufacturing sector exceeded 40 per cent in countries such as Malaysia, Singapore and Sri Lanka.[42] In particular, export processing zones (EPZs) have opened up previously unavailable wage employment opportunities on a large scale for women workers. In Bangladesh, for example, although employment in EPZs does not offer particularly favourable working conditions, it is generally still a better alternative for women than urban informal employment or agricultural employment. It has also been noted that

[42] United Nations Conference on Trade and Development: *Expert Meeting on Mainstreaming Gender in Order to Promote Opportunities: Note by the UNCTAD Secretariat*, Trade and Development Board, Commission on Enterprise, Business Facilitation and Development, Geneva, 14-16 Nov. 2001 (TD/B/COM.3/EM.14/2), p. 4.

where FDI stock represents greenfield investment, new employment opportunities have been created and labour force participation rates have increased in several large FDI recipient economies, especially in South, East and South-East Asia.[43] In the production of high-end, technology-intensive products, where TNCs need to retain skilled workers or are concerned about protecting their reputation and brand name, employment conditions tend to be decent. But in industries where there is strong global competition for markets or where standardized mass consumption goods are produced, TNCs may not offer particularly favourable working conditions and may exploit women workers. However, the same is true of domestically owned firms in both developing and developed countries.

Where the informal economy is linked to globalization, it is often because a developing country has been excluded from integration into the global economy. It is the failure or inability of countries to participate in globalization processes (whether because of their own domestic policies or because of international barriers), rather than globalization per se, that contributes to preventing these countries from benefiting from trade, investments and technology.[44] Of course, it is also true that the pressure of global competition and technological advances have increasingly led TNCs to subcontract or outsource the production of components and inputs to first-, second- and third-tier suppliers, many of whom are in micro-enterprises or are home-based in the informal economy in developing countries (see the next subsection on global chains).

The anti-globalization movement has focused attention on the downsides to globalization, which have been borne mainly by those in the informal economy. Anti-globalization groups point out, for instance, that globalization tends to work in favour of capital, especially companies, that can move quickly and easily across borders and to disadvantage workers, especially lower-skilled workers who cannot migrate easily or at all. Globalization also tends to benefit large companies which can have access to new technologies and capture new markets quickly and easily to the disadvantage of micro- and small entrepreneurs. There can be no greater contrast in terms of market access, power and competitiveness, than that between the woman who produces clothes at home for local markets and the brand-name retail firm that markets fashion clothes in the United States or Europe. The existing inequality between large and informal enterprises is often reinforced when governments offer incentive packages to increase international competitiveness. This is because most incentive packages target primarily large formal businesses and sometimes small and medium-sized businesses, but seldom micro-enterprises.

The impact of global competition also encourages formal firms to shift formal wage workers to informal employment arrangements without minimum wages, assured work or benefits, and to encourage informal units to switch from semi-permanent contracts with their workers to piece-rate or casual work arrangements – also without assured work, minimum wages or benefits. Globalization also often leads to shifts from secure self-employment to more precarious self-employment, as producers and traders lose their market niche. With these shifts, as more and more men enter the

[43] ibid., p. 5.

[44] See S. de Silva: *Is globalization the reason for national socio-economic problems?* (Geneva, ILO, 2001), Ch. 3.

informal economy, women tend to be pushed to the lowest-income end of the informal economy, often as industrial outworkers or petty traders.

Whether in fact globalization leads to decent work or to decent work gaps in the informal economy will hinge very much on government policies. For example, many governments provide incentives to attract foreign investors, but unless the policy mix is correct, capital-intensive investments may not create new jobs (resulting in "jobless growth") and may even lead to downsizing or retrenchment (i.e. job loss). Investors looking for cheap rather than skilled and productive labour would tend to foster informality. Supply-side support provided by the government to enhance competitiveness in global markets, for example through incentives or subsidies for export promotion, technology upgrading, tax holidays and so on, are normally biased in favour of larger industrial enterprises and may not only prevent smaller enterprises from developing their potential or gaining access to global markets, but may also lead to the displacement of informal operators and workers. In Sri Lanka, export promotion policies in favour of the coir industry led to a shift in the supply of coconut husks to mechanized units owned by men with access to credit, away from manual units owned by women with little access to credit. In South Africa, where the Government has used supply-side measures as policy instruments to promote the country's international competitiveness, restructuring of labour-intensive industries, such as the clothing industry, led to massive formal job losses for women, many of whom had to find alternative work as homeworkers in the clothing industry or had to go into other types of informal work.[45]

These examples illustrate why the ILO's Decent Work Agenda calls for "a balanced and integrated approach to sustainable development and growth in the global economy in which economic, social and environmental goals can be achieved together".[46]

Flexible specialization and global chains

The recent expansion of the informal economy has been linked not only to the *capacity* of formal firms to absorb labour but also to their *willingness* to do so.[47] Instead of production using a regular workforce based in a single large registered factory or workplace, more and more firms are decentralizing production and organizing work along the lines of "flexible specialization", i.e. forming smaller, more flexible specialized production units, some of which remain unregistered or informal. As part of cost-cutting measures and efforts to enhance competitiveness, firms are increasingly operating with a small core of wage employees with regular terms and conditions (formal employment) based in a fixed formal workplace and a growing periphery of "non-standard" or "atypical" and often informal workers in different types of workplaces scattered over different locations. These measures often include outsourcing or subcontracting and a shift away from regular employment relationships to more flexible and informal employment relationships. There are also triangular

[45] M.A. Chen; R. Jhabvala; F. Lund, op. cit., p. 24.

[46] ILO: *Reducing the decent work deficit: A global challenge*, Report of the Director-General, International Labour Conference, 89th Session, Geneva, 2001, p. 14.

[47] M.A. Chen; R. Jhabvala; F. Lund, op. cit., p. 2.

relationships involving workers, user enterprises and temporary work agencies. On the one hand, the shift to informal employment relationships complicates the issue of dependence – it is less obvious who the "boss" of these workers is and who, therefore, is ultimately accountable for these "disguised wage employees". On the other hand, the individualization of employment relationships makes collective representation of workers' interests much more difficult.

A global variation of flexible specialization is the rapid growth in cross-border commodity and value chains in which the final producer in many cases is in the informal economy in developing countries and, increasingly, in transition countries. A large share of the workforce in key export industries work under informal arrangements, including those producing garments, textiles, sport shoes and electronics. In export garment manufacturing, for example, the degrees of informality range from women workers in the factories of Bangladesh who labour under conditions of almost total non-compliance with the Factories Act, to sweatshops exploiting local and sometimes migrant labour in Los Angeles, Bulgaria or Indonesia, to homeworkers in the Philippines who embroider baby clothes for top-end markets in New York as "disguised wage workers" in multi-layered systems of subcontracting. Because it is highly labour-intensive, the garment industry is possibly the most widespread example of a buyer-led global commodity chain. Because the great majority (estimated at over 80 per cent) of garment workers are women who are often poor and desperately in need of an income, they are among those most vulnerable to exploitation. In fashion-oriented apparel chains, many large retailers and brand companies have literally moved out of manufacturing to concentrate only on design and marketing. They now subcontract or outsource manufacturing to local firms that may subcontract to middlemen, who further subcontract to own-account producers and homeworkers.[48]

Production of items for export such as garments, sport shoes and electronics equipment is carried out mainly in urban areas or in zones located near transport facilities such as airports or seaports. However, globalization has also made major inroads into rural areas, sometimes in the remotest areas. Extensive value chains often link forest workers who collect non-timber forest products in many developing countries to international markets.[49] These products include essential oils, medicinal plants, gum arabic, rattan, natural honey, brazil and other edible nuts, mushrooms, neem, shea, and other types of wild nuts and seeds which produce oils that can be used for cooking, skin care and other purposes. It is estimated that there are now 150 such non-timber forest products of major significance in international trade, involving millions of workers and producers. One study of shea nut collection in West Africa found that its final product, shea butter, was sold to European consumers at 84 times the price paid to the forest collectors.[50]

In the agricultural sectors of Latin America and Africa, the last decade has brought tremendous growth in the production of non-traditional agricultural exports, primarily fruits, vegetables and cut flowers for the European and North American markets. The global value chains for these products are buyer-driven and basically controlled by a

[48] M. Carr; M.A. Chen: *Globalization and the informal economy: How global trade and investment impact on the working poor*, background paper prepared for this report (2001).

[49] ibid., p. 14.

[50] ibid.

handful of major supermarket chains in Europe and North America. It is estimated that women comprise about 80 per cent of the workforce in this fast-growing sector. This is a labour-intensive industry, where women often work on large-scale "factory farms" for very low wages and in poor working conditions. The extensive use of pesticides can adversely affect their physical and mental health, as it places them at risk for nausea, depression and giving birth to babies with birth defects.

It is important to recall that developing and transition countries are not just the producers in commodity chains leading to markets in the developed countries. They also constitute an important market for goods and services from the developed world. One of the most visible manifestations of this is the widespread trade in second-hand clothing on the streets and in the open-air markets of developing countries. The collection of second-hand clothing is a major activity of charitable organizations in developed countries (who also offer certification for purposes of tax exemption to donors). Clothing is then sorted, cleaned, baled and sold to the highest bidder by weight. Depending on the destination, it may be sorted a second time before being loaded by the ton into containers for shipment to developing countries. Once the bales reach the destination, they may be either auctioned or delivered to subcontractors who then sell or distribute them to different internal destinations. At the street level, one study in Kenya found that women and men traders specialize in different types of clothing and that women generally earn substantially less than men.[51] On the one hand, the infusion of cheap second-hand clothing into the market almost always has a negative impact on local textile industries, garment producers and tailoring as a trade in these countries. On the other hand, large numbers of jobs are created in the informal economy, where prices for the clothing are so low that almost everyone can afford to have decent clothing. The trade-offs between the number of jobs destroyed and jobs created have yet to be studied, but on the whole one could say that the process amounts to deskilling, since the jobs lost require higher skills than the jobs in street trading that have been created.

The links between the formal and informal economies

Global commodity and value chains are clear examples of how the formal and informal economies are linked across the borders of many countries, influencing decent work for workers depending on which segment of the chain they are in. The lower down the chain, the more likely employment relationships are to be informal and the larger the decent work gaps. But it is not only in the case of global chains involving cross-border relationships internationally and subcontracting relationships nationally that the formal and informal economies are linked.

Even in more traditional activities, links can be traced. For example, in an ILO study of waste picking in Pune (India), the process of recycling was traced from the waste pickers to the traders to the wholesalers to the large recycling plants in the formal sector.[52] The study notes that almost all scrap trade establishments are registered under the Bombay Shops and Establishments Act, 1948. The Act provides for a wide

[51] P.K. Rono: *Women's and men's second-hand clothes businesses in two secondary towns in Kenya* (Nairobi, Institute for Development Studies, University of Nairobi, 1998), p. 30.

[52] P. Chikarmane; M. Deshpande; L. Narayan: *Study of scrap collectors, scrap traders and recycling enterprises in Pune* (New Delhi, ILO, 2001).

range of benefits and entitlements for workers, such as hours of work, paid leave, maternity benefits, etc. The study found, however, that only male workers benefit from any of the provisions, i.e. minimum wage, but receive only half pay for a weekly holiday and enjoy few other benefits. The study argues that an implicit employer-employee relationship exists between the scrap traders and scrap collectors, and therefore scrap collectors should also benefit from existing labour legislation.

There are also both direct and indirect linkages between informal workers and formal businesses, given that the informal economy includes the full range of "non-standard" wage employment that flexible specialization has given rise to, such as sweatshop production, homeworkers, industrial outworkers, temporary and part-time work and unregistered workers. Seen from this perspective, the informal economy includes many disguised wage employees – who may not even be aware of who their ultimate "boss" is, but who are clearly dependent on someone for the inputs, equipment, work location and sale of the final products – and that someone has certain responsibilities for ensuring decent work for such workers.

It is clear from the above that most segments of the informal economy have direct or indirect production, trade or service links with the formal economy. There are the women forced to work from their homes under subcontracting arrangements because the employer will not hire them under more secure work arrangements, the workers in a sweatshop producing garments for lead firms on the other side of the world, the street vendors selling on commission for formal firms, or even the janitor who cleans the offices of formal firms under a subcontracting arrangement. There are also informal providers of food, transport and clothing at affordable prices and other basic services such as garbage collection and street cleaning for workers in the formal economy.

The important policy issue is not whether informal wage workers or informal units have direct ties with the formal economy – clearly, they do – but whether those ties are benign, exploitative or mutually beneficial. The policy concern is to enhance the positive linkages and to ensure that there is decent work all along the continuum.

CHAPTER III

ENHANCING RIGHTS IN THE INFORMAL ECONOMY

THE RIGHTS DEFICIT IN THE INFORMAL ECONOMY

The informal economy is where most jobs have been created in recent years, but it is also where the greatest problems with regard to workers' rights are found. For the ILO, fundamental rights at work are as relevant in the informal as they are in the formal economy: hence the concern to create quality jobs and not just any job. "Work is as much about human rights as about income. The equity and dignity to which people aspire in employment must be assured for there to be decent work. In the twenty-first century, the employment challenge is about much more than a job at any price or under any circumstances."[1]

The ILO has been concerned with the rights of all workers, irrespective of where they work, since its founding in 1919; this was reinforced in 1998 when the International Labour Conference unanimously adopted the ILO Declaration on Fundamental Principles and Rights at Work and its Follow-Up. The Declaration constitutes a mutual obligation between member States and the ILO itself. It applies to all workers, regardless of employment relationship or formality of status. All those who work have rights at work: freedom of association and the effective recognition of the right to collective bargaining; the elimination of all forms of forced or compulsory labour; the effective abolition of child labour; and the elimination of discrimination in respect of employment and occupation.[2] These principles and rights at work derive from the ILO Constitution and have been expressed and developed in the eight ILO Conventions deemed fundamental by the international community and the International Labour Organization (these are discussed below).

That the rights gap is especially serious in the informal economy is evident from the global reports produced under the follow-up to the ILO Declaration. Workers in the informal economy often do not enjoy freedom of association or the right to organize and to bargain collectively (discussed in Chapter V). The systematic denial of the right to organize to certain groups of workers and employers even by countries that have ratified Conventions Nos. 87 and 98 is still evident in several parts of the world, as seen by the number of cases examined by the ILO Committee on Freedom of Association and the tripartite ILO Conference Committee on the Application of Standards.[3]

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[1] ILO: *A global agenda for employment: Summary*, Global Employment Forum, Geneva, 1-3 Nov. 2001.

[2] ILO: *ILO Declaration on Fundamental Principles and Rights at Work and its Follow-Up*, International Labour Conference, 86th Session, Geneva, 1998, para. 2.

[3] See ILO: *Your voice at work: Global report under the follow-up to the ILO Declaration on Fundamental Principles and Rights at Work*, International Labour Conference, 88th Session, Geneva, 2000, Report I (B), p. 27.

Representation and voice are not only a fundamental right, they are also the means through which informal workers can secure other rights and achieve decent work. Forced labour, including debt bondage and exploitation and abuse of trafficked persons, is found in the informal economy because it is illegal and outside the purview of the law. Child labour is rife in the informal economy; children are often in the most hidden and hazardous forms of work and most vulnerable to all the negative aspects of informality (see Chapter II). People who face direct or indirect discrimination and do not enjoy equality of opportunity and treatment – whether in terms of access to education and training, to resources or to formal jobs – end up in the informal economy, normally at the bottom end in the worst jobs. They include women (especially those at both ends of the age spectrum), workers with disabilities and migrants.

The ILO Declaration on Fundamental Principles and Rights at Work and the informal economy

The ILO Declaration on Fundamental Principles and Rights at Work articulates values enshrined in the ILO Constitution, to which States subscribe when they join the Organization. Unlike Conventions, which when ratified give rise to specific legal obligations, the Declaration, which is not subject to ratification, reaffirms broad principles. It recalls that the guarantee of fundamental principles and rights at work "enables the persons concerned to claim freely and on the basis of equality of opportunity their fair share of the wealth which they have helped to generate and to achieve fully their human potentials". It targets in particular "the problems of persons with special social needs".[4] Informal workers, who do not enjoy their basic rights and who have limited access to voice and social protection, clearly have such needs. And among informal workers, special attention needs to be given to particularly vulnerable groups – women, child workers, youth, persons with disabilities, migrants and ethnic minorities – who are often socially excluded and subjected to discrimination, exploitation or forced labour.

Since the fundamental principles and rights at work and the fundamental Conventions apply to all workers, there should not be a two-tiered system or separate regulatory framework for formal and informal workers – although there may be a need for different modalities and mechanisms for guaranteeing them in the less regulated, less formal parts of the economy. It might be possible to have separate systems of business registration, taxation or subscription to formal social security schemes for informal enterprises so as to adjust to their actual compliance capacity. But *there should not be a lower level of application of core labour standards for informal workers. In regard to fundamental human rights, violation or non-compliance cannot be excused by poverty or informality.* While, admittedly, in the context of high unemployment and abject poverty almost any work might appear to be better than none, it still cannot be argued that basic rights at work or, more generally, the quality of work, acquire relevance only above certain levels of income.

[4] *ILO Declaration on Fundamental Principles and Rights at Work and its Follow-up*, op. cit., pp. 5-6.

Freedom of association and the right to collective bargaining

Respect for the principle of freedom of association is fundamental to the ILO. The principle is enshrined in the ILO Constitution, and States which join the Organization are bound to respect it. The two basic Conventions dealing with freedom of association are the *Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87)*, and the *Right to Organise and Collective Bargaining Convention, 1949 (No. 98)*. The first guarantees the right, freely exercised, of workers and employers, without distinction, to organize for furthering and defending their interests. In the widest sense, this Convention constitutes an enabling right that empowers workers to address their priority problems. The second protects workers and employers who are exercising the right to organize, forbids interference in workers' and employers' organizations and promotes voluntary collective bargaining. Hence, there can be no doubt that, under the ILO Constitution, the ILO Declaration on Fundamental Principles and Rights at Work and the core Conventions, operators and workers in the informal economy have the right to establish organizations. In his 1991 Report, the Director-General of the International Labour Office pointed out that: "it is only through forming and joining organizations of their own choosing that those employed in the informal sector will be able to generate sufficient pressure to bring about the necessary changes in policies, attitudes and procedures that hamper the development of the sector and the improvement of working conditions in it".[5]

This right has been confirmed by the ILO supervisory bodies. The ILO Committee of Experts on the Application of Conventions and Recommendations (hereinafter referred to as the Committee of Experts), for example, has requested that measures be taken in countries where legislation denies the right to organize in the informal economy to guarantee this right for the people working in it. In some cases, a country's legislation does not recognize persons active in the informal economy as workers and employers, or rules require authorization prior to the establishment of an organization, which delays or prevents such establishment. Regulations requiring an onerously high number of workers in order to form a union may also prevent the establishment of such an organization in the informal economy. More directly, self-employed workers may be excluded from the application of legislation or prohibited from organizing for professional purposes by law. These are some of the difficulties increasingly addressed by the Committee of Experts in recent years.[6]

Elimination of forced labour

Forced labour is on the increase in all parts of the world.[7] Situations that trap people into forced labour include abduction, trafficking in persons and outright slavery, coercive recruitment, bonded labour resulting from indebtedness and compulsory

[5] ILO: *The dilemma of the informal sector*, Report of the Director-General, International Labour Conference, 78th Session, Geneva, 1991, p. 39.

[6] C. Schlyter: *International labour standards and the informal sector: Developments and dilemmas*, background paper prepared for this report (July 2001), p. 8.

[7] ILO: *Stopping forced labour: Global Report under the follow-up to the ILO Declaration on Fundamental Principles and Rights at Work*, Report I (B), International Labour Conference, 89th Session, Geneva, 2001.

labour in public works. Increasing poverty is a major contributing factor. Women and children are the primary, but by no means the only, victims. Informal workers may be particularly vulnerable to exploitation by forced labour. Some of the above practices may go unchecked in the informal economy owing to the lack of any form of inspection and limited access of persons in such situations to legal recourse.

The two basic instruments dealing with the elimination of forced labour are the *Forced Labour Convention, 1930 (No. 29)*, and the *Abolition of Forced Labour Convention, 1957 (No. 105)*. The first instrument provides for the suppression of forced labour in all cases except compulsory military service, certain civic obligations, certain prison labour, work exacted in cases of emergency and minor communal services. The second prohibits all forms of forced and compulsory labour exacted for certain purposes, including political coercion, economic development, labour discipline, punishment for having participated in strikes and as a means of racial, social, national or religious discrimination. These fundamental Conventions apply to all persons, irrespective of the type or location of economic activity.

Elimination of child labour

Child labour is almost entirely a phenomenon of the informal economy. The ILO's concern with child labour dates all the way back to its founding in 1919, when two Conventions were adopted concerning the minimum age of employment in industry and night work. Even today, child labour continues to be a serious problem in many developing countries. Children have traditionally been expected to help out in farming and family enterprises as part of their socialization. Schools are often inadequate and too expensive for those below the poverty line. Abject poverty forces parents to expect their children to contribute to family survival. During periods of economic crisis, the extent of child labour increases. Child labour is also still found in developed countries, often in appalling conditions since it is largely clandestine in nature.[8]

The basic instruments dealing with child labour today are the *Minimum Age Convention, 1973 (No. 138)*, and the *Worst Forms of Child Labour Convention, 1999 (No. 182)*. The first is a general instrument which seeks to replace earlier Conventions on minimum age. Although Convention No. 138 is intended to cover all work, it provides for the exclusion of certain categories of workers from its application at the time of ratification.[9] Convention No. 182 commits countries to eliminating, as a matter of urgency, the worst forms of child labour, which include the following four categories: (i) all forms of slavery or practices similar to slavery, such as the sale and trafficking of children, debt bondage and serfdom and forced or compulsory labour, including forced or compulsory recruitment of children for use in armed conflict; (ii) the use, procuring or offering of a child for prostitution, for the production of pornography or for pornographic performances; (iii) the use, procuring or offering of a child for illicit activities, in particular for the production and trafficking of drugs as defined in the relevant international treaties; and (iv) work which, by its nature or the circumstances

[8] See, for example, United States Department of Labor, Bureau of International Labor Affairs: *By the sweat and toil of children*, different volumes over the years (Washington, DC).

[9] To date, of the 111 countries that have ratified Convention No. 138, few have made use of the flexibility offered by the instrument.

in which it is carried out, is likely to harm the health, safety or morals of children. Such activities are more likely than not to be found in the informal economy, and countries that have ratified the Convention[10] are therefore required to design and implement programmes aimed at reaching out into the informal economy. This includes preventing children from engaging in such activities and assisting their removal from them, and ensuring access to free basic education or vocational training.

Elimination of discrimination

The two basic instruments that deal with non-discrimination and equality of opportunity and treatment are the *Discrimination (Employment and Occupation) Convention, 1958 (No. 111)*, and the *Equal Remuneration Convention, 1951 (No. 100)*. The first Convention requires ratifying States to declare and pursue a national policy aimed at promoting equality of opportunity and eliminating all forms of discrimination in employment and occupation based on race, colour, sex, religion, political opinion, national extraction or social origin. The term "employment and occupation" includes the self-employed and independent workers and is not limited to the formal economy. The Committee of Experts has noted this on a number of occasions, although it has pointed out that in practice the informal economy is frequently excluded from such provisions in labour codes, and enforcement mechanisms and complaints procedures remain out of reach for persons engaged in it. Convention No. 100 requires ratifying States to pursue a policy of equal remuneration for men and women for work of equal value and applies to all workers without exception, including self-employed workers, as indicated by the Committee of Experts. In 1992, the Committee lauded India for providing financial assistance to non-governmental organizations (NGOs) running programmes aimed at organizing women in the informal economy and creating awareness among women about their rights, including the right to equal remuneration for work of equal value.

Although not a fundamental Convention, the *Workers with Family Responsibilities Convention, 1981 (No. 156)*, is of direct relevance in so far as it aims to create effective equality of opportunity for men and women workers with family responsibilities. In some cases, informal workers are barred from entitlements accorded to other workers by law, for example, assistance with childcare and access to training facilities. The Committee has called on States to ensure that informal workers are protected from discrimination and assisted, to the extent possible, in reconciling their work and family responsibilities.

The promotional follow-up

In order to give it full effect, the Declaration contains a promotional follow-up. An integral part of the Declaration, the follow-up exists to encourage the efforts made by the member States to promote the fundamental principles and rights reaffirmed in the Declaration. The Declaration places responsibility on the Organization and its constituents for implementing relevant technical cooperation efforts and mobilizing re-

[10] As of October 2001, 100 countries had ratified the Convention.

sources in order to address the obstacles that member States encounter in realizing these principles and rights. Technical cooperation under the Declaration therefore supports efforts to promote the ratification and implementation of the fundamental Conventions; to assist member States not yet in a position to ratify them to respect, promote and realize the principles that are the subject of those Conventions; and to help member States to create a climate for economic and social development based on respect for the fundamental principles and rights at work.

The follow-up has been generating a widening base of information through its reporting system,[11] as well as a rapidly growing programme of technical cooperation. Several of the technical cooperation programmes target the informal economy and are aimed at the elimination of forced labour, child labour and discrimination. Often the problems addressed are linked. For example, child labour may be linked to bonded labour through indebtedness, or to discrimination against women in employment and remuneration. Action programmes therefore aim not only to provide more and better jobs for women in the informal economy, but also to sensitize women so that they are aware of their own rights as workers and mothers, and the rights of their children, and of how they can organize to better claim and protect these rights for themselves and for their children.

ILO INSTRUMENTS AND THE INFORMAL ECONOMY

The eight core Conventions concerned with *fundamental human rights* must be promoted without delay and by all means possible. Governments should give absolute priority to the application of these fundamental rights, as there cannot be a lower level of fundamental rights for workers in the informal economy as compared to those in the formal economy. At the same time, in order to address more fully the decent work deficits in the informal economy, it is necessary to extend *basic minimum standards* on substantive matters such as conditions of work, safety and health and income security, as well as basic rules for fair treatment, for example with regard to job security and vulnerable groups. In seeking to extend these rights to the informal economy, several points are worth bearing in mind.

First, for those concerned that the introduction of basic minimum standards and better working conditions will adversely impact on the growth and sustainability of informal enterprises/units, it is worth noting that ILO Conventions often have a provision to the effect that *standards should be implemented in a way appropriate to national circumstances and capabilities*. A basic characteristic is that they stipulate minimum standards to be arrived at through tripartite negotiation and consensus and do not prescribe economically unrealistic levels of protection. The introduction of better working conditions in the informal economy is likely to have to be progressive. For example, the *Minimum Wage Fixing Convention, 1970 (No. 131)*, states that the determination of the level of the minimum wage must as far as possible and appropriate

[11] The reporting system includes an annual review for States that have not yet ratified the fundamental Conventions and global reports designed to serve as a basis for assessing the effectiveness of the assistance provided by the Organization and for determining priorities in the form of action plans for technical cooperation.

take into consideration "economic factors, including the requirements of economic development, levels of productivity and the desirability of attaining and maintaining a high level of employment". However, what is important to make clear is that *while there is provision for gradual extension of rights, the level of rights must be the same for both formal and informal workers; there cannot be a lower level of rights for informal workers.*

Second, it is untrue that ILO standards are only for those in the formal economy where there is a clear employer-employee relationship. Most ILO standards refer to "workers" rather than the narrower legal category of "employees". The *Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87)*, for example, applies to "workers and employers, without distinction whatsoever". The *Rural Workers' Organisations Convention, 1975 (No. 141)*, and its supplementary Recommendation (No. 149) define "rural workers" as any person engaged in agriculture, handicrafts or a related occupation in a rural area, whether as a wage earner or a self-employed person such as a tenant, sharecropper or small owner-occupier, and states that all categories of rural workers have the right to establish and join organizations of their own choosing without previous authorization. The Recommendation applies to all types of organizations of rural workers, including cooperatives.[12] "The problems of coverage arise almost exclusively at the national level, when governments have not yet been able to extend effective protection afforded by national law to all workers".[13] Labour legislation is often designed to protect "employees" rather than applying to all "workers".

Third, when a standard initially applies only to workers in the formal economy, there is sometimes explicit provision for its extension to other categories of workers. For example, the *Labour Administration Convention, 1978 (No. 150)*, states that the system of labour administration,[14] when required by national conditions, must be extended to groups not traditionally included in such systems, by gradual stages where necessary.[15] The *Labour Inspection Convention, 1947 (No. 81)*, limits the requirements of establishing a labour inspection system aimed at ensuring the application of labour legislation to industrial and commercial undertakings. But its Protocol of 1995 extends, in principle, the coverage of labour inspection to all the risks to which workers in the non-commercial services sector may be exposed, and activities in all categories of workplaces that are not considered as industrial or commercial. The *Social*

[12] The Co-operatives (Developing Countries) Recommendation, 1966 (No. 127), expands on the role of cooperatives in social and economic development. The revision of this Recommendation was discussed at the 89th Session (2001) of the Conference and the discussion is continuing this year. Chapter V of this report also considers the role of cooperatives in the informal economy.

[13] ILO: *Trade unions and the informal sector: Towards a comprehensive strategy*, background paper for the International Symposium on Trade Unions and the Informal Sector, Geneva, 18-22 Oct. 1999, p. 15.

[14] The system of labour administration refers to public administration activities in the field of national labour policy, normally including general standards, labour inspection and labour statistics.

[15] It specifically refers to categories of workers who are not in law "employed persons", such as tenants not engaging outside help, sharecroppers and similar categories of agricultural workers; self-employed workers who do not engage outside help, occupied in the informal sector as understood in national practice; members of cooperatives and worker-managed undertakings; and persons working under systems established by communal customs or traditions.

Policy (Basic Aims and Standards) Convention, 1962 (No. 117), also provides for measures to be taken to help independent producers and wage earners to improve their living conditions, and requires governments to take all practicable measures to protect these groups against usury, which in its most serious forms may lead to situations of debt bondage.

The *Employment Policy (Supplementary Provisions) Recommendation, 1984 (No. 169)*, states among its general principles that "Members should take measures to enable the progressive transfer of workers from the informal sector, where it exists, to the formal sector to take place". The *Job Creation in Small and Medium-Sized Enterprises Recommendation, 1998 (No. 189)*, recommends that Members take measures to assist and upgrade the informal sector.[16] It also recommends the review of labour and social legislation to determine whether there is a need for supplementary social protection, such as voluntary schemes, cooperative initiatives and others. Although a Recommendation does not carry the same binding obligation as a Convention, it provides authoritative advice for States and constituents and a broad mandate to the ILO to cover micro-enterprises in the informal economy in its work on small and medium-sized enterprise development.

Fourth, there are instruments which focus on specific categories of workers who are often in the informal economy, such as homeworkers, rural workers and indigenous and tribal peoples. The *Home Work Convention, 1996 (No. 177)*, and Recommendation (No. 184) are directly relevant for an important segment of the informal economy. The Convention covers workers who perform work outside the premises of the employer, for remuneration, which results in a product or service as specified by the employer, irrespective of who provides the equipment, materials or other inputs used. The employer may give out home work either directly or through intermediaries. The Recommendation elaborates on the Convention in ensuring equality of treatment between homeworkers and other wage earners in areas such as minimum age, the right to organize and to bargain collectively, remuneration, occupational safety and health, hours of work, rest periods and leave, social security and maternity protection. Notwithstanding the low level of ratification of this Convention,[17] the content of the instrument has been widely used by those involved in organizing and assisting homeworkers around the globe and in lobbying governments.[18]

The *Indigenous and Tribal Peoples Convention, 1989 (No. 169)*, contains standards on labour, safety and health, vocational training, traditional occupations and social security that are very much oriented towards the informal economy, as that is where most indigenous and tribal peoples work. The Convention specifically includes seasonal, casual and migrant workers in agriculture and other employment, as well as those employed by labour contractors, and also calls for support for handicrafts and rural industries. Throughout the Convention, the emphasis is on elimination of discrimination and coercive practices, and the establishment of mechanisms to ensure

[16] The importance of Recommendation No. 189 for the promotion of micro-enterprises and enabling them to move from the informal to the formal economy is discussed in Chapter VI.

[17] Two ratifications, Finland and Ireland, by September 2001.

[18] See, for example, HomeNet: *The Home Guide: Using the ILO Convention on Home Work* (Leeds), Jan. 1999, and *HomeNet: The Newsletter of the International Network for Homebased Workers* (Leeds), No. 10, Autumn 1998, pp. 10-11 and No. 15, Jan. 2001, pp. 3-4.

consultation, representation and participation of the peoples concerned. Convention No. 169 is an interesting means of extending the broad principles of international labour standards to a socially excluded group, and it could be argued that it provides a model for dealing with the problems of other excluded groups in the rural and urban informal economies.

Fifth, even when informal workers are not explicitly referred to in the text, indications of the applicability of a particular instrument can be sought within the framework of the ILO's supervisory system. The observations made by the Committee of Experts and the Conference Committee on the Application of Standards can be particularly helpful. The largest number of comments by the Committee of Experts in recent years relating to the informal economy concerns the obligation of governments to include representatives of persons active in the informal economy in consultations on employment policy, under Article 3 of the *Employment Policy Convention, 1964 (No. 122).* Generally, the Committee reminds governments of the contents of this Article, and asks for information as regards any action taken to ensure that representatives of the informal economy are properly consulted in relation to employment policies that concern them. However, the indications are that governments find difficulty in doing so. Many requests are repeated requests that have been unanswered in earlier years. When countries have actually replied to these requests for information, it has often been to signal problems in extending consultations to the informal part of the economy. Many factors may contribute to the difficulties experienced by States in consulting representatives of workers in the informal economy, as discussed in Chapter V. The Committee, however, while recognizing these difficulties, has made it clear that countries must work to solve these problems.

It could therefore be argued that those ILO Conventions that refer to conditions of work, including wages, occupational safety and health and social services, are all as relevant to workers in the informal economy as they are to those in formal employment. However, it has to be acknowledged that, in practice, there are difficulties in verifying and enforcing standards in the informal economy, particularly in low-income countries, where the majority of workers are to be found in the informal economy. Where labour inspection or any form of surveillance of the informal activities is possible, it would appear that the first step would be to identify and prevent the most abusive conditions such as debt bondage, discrimination, exploitation based on dependency and child labour. Much could also be achieved in the field of occupational health and safety. A central instrument is the *Occupational Safety and Health Convention, 1981 (No. 155).* Although the Convention seems to be formulated to apply to the formal sector only, it might be argued that a coherent national policy should ideally consider how to reach out to informal workers.

Promoting rights through national and local legislation, regulations and institutions

The review of the ILO Declaration and other instruments clearly shows that there is a solid international basis for extending rights to the informal economy. The rights deficit, therefore, is at the national and local levels and can be traced to how rights are expressed and enforced through national and local law and practice, and to how informal workers are empowered to claim their rights. Appropriate, effective labour legis-

lation and labour administration, and legal literacy on the part of informal workers and operators are all obviously crucial. A critical reason why informal workers may not enjoy the rights accorded in labour legislation or are not covered by labour administration is because the enterprises they work in are not regulated. The Director-General's 1991 Report also noted that "the non-observance of labour legislation is therefore linked with the precarious existence of most informal sector enterprises, and the problem will not be entirely overcome until such enterprises are able to operate profitably in a more stable environment".[19] In order to extend labour rights to workers in the informal economy, it is equally important to ensure an enabling legal framework for informal enterprises, including removing the barriers to legal registration and enforcing property rights and contracts. It is also important to focus on formal firms that hire workers under non-standard or informal employment relationships.

Improving labour legislation

Informal work can be treated as a legal problem. It can be work performed outside the law by workers who should be protected but are not. This could be because the law somehow assumes that dependent workers in the informal economy have family, ethnic or geographical ties with the business owner and therefore are not likely to be exploited. However, the positive role of the paternalistic relationship should not be exaggerated, especially since the relationship is likely to be a distant rather than an immediate one and in any case does not absolve the government of its basic responsibility to protect workers. It could also be because labour legislation has failed to keep up with the changes in the labour market and in new forms of work organization. One example is the growth of temporary work and the triangular relationships involving "temp workers", user enterprises and temporary work agencies.

It could also be that informal workers are not covered by existing labour legislation in a country because the law excludes those not in a formal employment relationship. Unlike international labour standards, which are intended to apply to all "workers", the labour legislation in most countries is designed to protect "employees". Deficiencies in legal criteria for determining the existence of an employment relationship have in many cases blurred the distinction between the self-employed and the employed. Many workers in the informal economy, especially those in outsourcing and subcontracting arrangements, may be regarded as "disguised wage workers" rather than truly self-employed. The case of home work is a good example; it also helps to explain why women, who make up the majority of homeworkers, are more likely than men to be outside the coverage of existing labour legislation. Their employers treat them as if they were self-employed and therefore do not contribute to their social protection, but in reality these workers are often totally dependent on a single enterprise or employer for their equipment, raw materials and orders. They perform work under conditions of subordination and dependency but they do not enjoy the rights and protections accompanying their employee status. Their service contract, whether formal or informal, should in reality be an employment contract. In some cases, their ultimate employers can be traced to multinational corporations.

[19] ILO: *The dilemma of the informal sector*, op. cit., p. 38.

National governments, in consultation with the social partners, may wish to conduct a review to determine, first, how rights provided for in existing labour legislation can be practically and effectively applied to the informal economy; and, second, where it may be necessary and possible to extend the existing legal scope of rights to cover informal workers.

A review of how labour legislation can be more effectively applied to informal workers may consider whether in fact *legal requirements should be simplified. However, it is essential to underscore that such simplification, if considered, should not involve any lowering of core labour standards – it can only be justified in terms of promoting more effective application of the fundamental principles and rights at work.* But simplifying the labour code, for example with regard to other rights and improved working conditions, might make it easier for employers and third parties, including intermediaries, to comply with it and for workers to understand their rights. For example, a study conducted in 1992 of some 150 micro-enterprises in the United Republic of Tanzania concluded that "the main reason for the entrepreneurs not respecting the requirements of national labour laws and international labour standards is the so-called cost of legality ... These enterprises are already only just breaking even".[20] Of course, in this case it is assumed that it is the cost and complexity of compliance – and not outright exploitation of workers for profit – that constitutes the key motivation for non-compliance. The study summarized the labour conditions that a law-abiding micro-enterprise in the United Republic of Tanzania would have to apply to its employees: they would not be under 15 years of age; they would work not more than nine hours a day and 45 hours a week; they would be paid no less than the minimum wage and would receive pay regularly and in legal tender; they would have one day off in seven; they would have 28 days' paid holiday a year; they would be provided with appropriate protective clothing and a safe working environment; the employer and employee would contribute to the national pension fund for an amount equal to 10 per cent of wages and employees would be insured for injury, medical aid and occupational diseases.

National governments, in consultation with the social partners, may also wish to examine the scope for extending the interpretation of specific types of legislation to apply to the informal economy. Where workers currently do not have employment contracts or where employment is precarious, efforts to clarify the employment relationship may be important, especially in those situations where, as described above, non-observance of labour standards has been attributed to the absence of a clear employer-employee relationship.

Clarification of the existing labour legislation may also be necessary in situations where part of the workforce is intentionally unregistered in order to avoid payment of benefits. This may be particularly true of employers – whether formal or informal – who hire undocumented migrant workers. Such workers often fear the authorities and avoid "surfacing" because they are afraid of being turned in and deported. Therefore they stay "underground" in the informal economy, but are naturally extremely vulnerable to exploitation and abuses of various kinds since they are unlikely to report them

[20] C. Vargha: *Case Study on international labour standards and micro-enterprises promoted by the project URT/88/007 – Employment promotion in the informal sector* (Geneva, ILO, 1992), p. 18.

to the authorities. Measures are needed to ensure that all those whom labour legislation is meant to protect are able to make use of the law.

With specific reference to flexible specialization on a global scale in commodity or supply chains, a burning issue is who should ultimately be responsible for the rights and protection of all workers in the chain, including those at the bottom of the chain who work from home or in the collection of non-timber forest products or produce agricultural products for export. It is true that many lead firms may not know how many workers work for them, or where and under what conditions, in global subcontracting chains that are often long and dispersed. But one view that has been increasingly supported by both workers' and employers' organizations is that it is the lead firm in the chain who is the real employer of the workers further down the chain and who therefore has responsibility for the rights and protection of all the workers in the chain. The lead firm is the one that outsources production, even if it is only a retail firm.[21]

Some governments have taken active measures to review labour legislation for the informal workforce. India, for example, has long recognized the size, importance and persistence of the rural sector and the urban informal economy in the process of economic liberalization and has set up a series of commissions to review working conditions in the informal economy. In 1986, it set up the National Commission on Self-Employed Women and Women in the Informal Sector. In 1991, a National Commission on Rural Labour was convened. Most recently, in 1999, a Second National Commission on Labour was established to review and suggest how to rationalize existing labour law and recommend umbrella legislation for the "unorganized sector". The major recommendations of one of the study groups set up by the Commission is presented in box 3.1. The Commission has also been holding hearings with workers' and employers' organizations, government officials and organizations of informal workers and was expected to submit its final report by the end of 2001.

Legal literacy

It is also obviously crucial that informal workers know what their rights are and how to claim these rights and seek recourse in case of violation. The most important measure in this regard is the organization of informal workers to give them voice; this is taken up in detail in Chapter V. Many of the ILO's technical cooperation programmes have developed information and advocacy tools and have targeted action programmes for enhancing the legal literacy of informal workers and entrepreneurs and for strengthening the institutions and processes for social dialogue involving peo-

[21] In India, several pieces of labour legislation, including the Contract Labour Act, the Bidi and Cigar Workers Act and the Inter-State Migrants Act, stipulate that both the principal employer and contractor are "jointly and severally responsible", i.e. both the contractor and the person/firm that contracts the contractor to recruit workers or outsource production are jointly and individually responsible for complying with labour legislation. In the United States, labour lawyers representing 71 Thai garment workers who had been kept in virtual captivity for seven years argued in a civil lawsuit that the lead retail firms that outsourced production to the sweatshop as well as the on-site operators of the sweatshop should be held responsible. The Home Work Recommendation, 1996 (No. 184), incorporates the same principle: that it is not only the contractor but also the lead firm that is responsible for protecting the rights of homeworkers.

Box 3.1. Recommendations to extend national labour legislation to informal women workers in India

The Second National Labour Commission in India set up in late 1999 was mandated to recommend "umbrella legislation" for the informal workforce. It involved organizations of informal workers in drafting the legislation. Below are some of the major recommendations of the Group on Women Workers and Child Labour:

A. *Minimum Wages Act*

- Broaden definition of worker to accommodate more categories of informal workers
- Include piece rates, not just time rates, under minimum wage

B. *Equal Remuneration Act, 1975*

The Equal Remuneration Act (ERA) should be amended to promote equal remuneration between all workers – men and women, formal and informal, as follows:

- Extend application of the Act to cover unequal remuneration not just within units/establishments but across units/establishments by occupational group, industry or sector, or region
- Replace clause "same work or work of a similar nature" by clause "work of equal value"
- Provide guidelines and mandate training for labour inspectors – e.g. to help them to identify discriminatory practices pertaining to the ERA

C. *Sector-specific Acts*

1. *Bidi and Cigar Workers (Conditions of Employment) Act, 1996*

- Include those who work under the "sale-purchase" system in the definition of "employee"
- Fix a national minimum wage for bidi rolling to be adopted by all States

D. *Women-specific measures*

1. *Maternity Benefit Act* – coverage needs to be expanded
2. *Industrial Disputes Act*

- Include prohibitions against all forms of sexual harassment
- Give proportionate representation to female employees in the Worker Committee

3. *Workmen's Compensation Act, 1923*

- Provide coverage for all female workers under medical insurance schemes

4. *Factories Act, 1948* (and other Acts with childcare provisions)

- Mandate provision of crèches in all factories employing more than ten workers (either men or women)

5. ***Employees State Insurance Act, 1948*** – cash benefit to insure women for pregnancy
- Extend coverage to units of ten workers and to workers who earn less than Rs3,000 per month

E. ***Advisory, worker and tripartite committees or boards*** (mandated under these Acts)
- Empower and expand the activities of these institutions to review and regularize irregular tactics by employers, such as shifting from subcontract to sale-purchase arrangements to avoid employer status
- Include at least one woman from all sides (employer, formal employees, informal workers and government)
- Include representatives of trade unions of informal women workers and formal women workers

Source: Report of the Study Group on Women Workers and Child Labour to the National Commission on Labour (2001), cited in M. A. Chen; R. Jhabvala; F. Lund: *Supporting workers in the informal economy: A policy framework*, background paper prepared for this report (Nov. 2001), box 5.

ple in the informal economy.[22] Especially for the socially excluded, including immigrants, ethnic minorities and women in the informal economy, legal literacy is important so that they are aware of their rights and entitlements. ILO surveys have shown that many informal workers consider that labour legislation is irrelevant to their situation and that they do not, and perhaps should not, enjoy the protection and benefits provided by the law.

Strengthening labour administration and enforcing labour rights

Another major factor behind labour rights deficits in the informal economy is the constraints of labour administration. The labour inspection services in many developing and transition countries are not adequately staffed or equipped to effectively enforce standards in the informal economy, especially in terms of covering the myriads of micro- and small enterprises or the growing numbers of homeworkers. But there are now innovative schemes involving labour inspection auxiliaries, trade unions and more aware informal workers themselves. In the state of Gujarat in India, for example, the Government agreed to allow the Self-Employed Women's Association (SEWA) to assist it in monitoring the conditions of homeworkers and establishing minimum piece rates that would be consistent with the minimum wage.

[22] For example, several units within the Office collaborated with the International Confederation of Free Trade Unions (ICFTU) and the International Trade Secretariats to develop a resource kit for trade unions which aims, among other things, to raise awareness of workers, especially women in the informal economy, of their rights and the benefits of organizing. ILO: *Promoting gender equality: A resource kit for trade unions, booklet 4: Organizing the unorganized: Informal economy and other unprotected workers* (Geneva, 2001), http://www.ilo.org/public/english/employment/gems/eeo/tu/tu_toc.htm

Experience gained from other practical interventions suggests that it may be more effective if labour inspectors are reoriented from an approach that emphasizes enforcement (which often opens up opportunities for corruption and harassment) to a role that is educational and persuasive, transparent and participatory. A good example of this is the programme for the elimination of child labour in commercial agriculture in the United Republic of Tanzania that was developed in partnership with the ILO International Programme on the Elimination of Child Labour (IPEC). Labour inspectors received training in persuading employers to remove child workers and provide educational facilities for them on the plantations, and worked together with employer and trade union representatives for a successful outcome.

Because of the precarious nature of their employment, informal workers may be too frightened to seek justice when their rights are violated. They may also not be able to enforce their employment rights because of lack of access to justice. They may not be able to afford legal services – in which case the provision of free or heavily subsidized legal aid services by the State would be very important. Some trade unions are also helping informal workers to gain access to legal aid services. The system of labour courts and industrial tribunals, especially in developing countries, may be very weak, may lack resources and is all too frequently corrupt. Strengthening the labour administration and justice systems and promoting good governance would go a long way to achieving decent work and enabling informal workers to move into the formal economy.

Protecting workers through improving commercial and business regulation[23]

Whether labour legislation is implemented and the rights of workers observed will depend also on whether the enterprises they work in are registered and observe the regulations governing business activities. When enterprises are not legally registered and regulated, neither are their workers, who then do not have the protection of labour law. Micro- and small enterprises that are able to overcome regulatory or bureaucratic constraints and develop their dynamic potential are much more likely to observe labour rights than informal enterprises. ILO surveys indicate that compliance with some aspects of labour legislation, such as health and safety regulations, minimum wages and working hours, tends to improve as the size of the enterprise increases and as its longevity increases. On the other hand, benefits such as sick pay, workers' compensation for accidents or death, annual leave and maternity leave are virtually never provided in the informal economy, regardless of the size or age of the enterprise.[24]

A business may be registered with a local authority, such as a city council, but may not be registered with a national authority or submit its records to the system of national accounts. Or it may have to pay taxes to local authorities even if it is not registered with the local authority. For example, some city councils deploy tax collectors to collect daily market fees from all street vendors, whether or not they are registered. And even when they impose market fees or indirect taxes, they may not allow the street vendors to register or, if they allow registration, may not allocate space or per-

[23] See also the subsection "An enabling policy, legal and regulatory framework" in Chapter VI.

[24] ILO: *Trade unions and the informal sector*, op. cit., p. 32.

mits to street vendors. To complicate matters further, there are two broad types of regulations. First, there are regulations related to becoming legal: notably registration and licensing. Then, there are regulations related to remaining legal: notably taxation, observance of the labour code and health and safety regulations.

The notion that enterprises are informal simply to avoid observing labour legislation or paying taxes is too simplistic. What needs to be considered is the costs and barriers involved in being regulated, relative to the benefits. At the bottom end of the continuum of informal activities are those seriously disadvantaged individuals and households who take up such activities for sheer survival. Their only asset may be their labour power, and their activities are informal either because the transaction costs of formalizing their economic activities are simply too high or because the procedures for doing so are too complicated, intimidating and time-consuming. Or the informal operators may not even be aware of the regulations they need to comply with. Even for those individuals or households who attempt to set up micro- or small enterprises because of their potential for generating growth or wealth, the regulations at national or local level may be too punitive or constraining.

As underscored in the ILO *Job Creation in Small and Medium-Sized Enterprises Recommendation, 1998 (No. 189)*, and as will be discussed in greater detail in Chapter VI, in order to raise the quality of employment in these enterprises, first and foremost, it is important to remove the barriers, reduce the transaction costs and enhance the benefits of registration and legalization. Recommendation No. 189 emphasizes the importance of removing constraints on enterprises, including "inappropriate, inadequate or overly burdensome registration, licensing, reporting and other administrative requirements, including those which are disincentives to the hiring of personnel, without prejudicing the level of conditions of employment, the effectiveness of labour inspection or the system of supervision of working conditions and related issues". It also calls for measures to make available to small and medium-sized enterprises "assistance in understanding and applying labour legislation, including provisions on workers' rights, as well as in human resources development and the promotion of gender equality".

CHAPTER IV

IMPROVING SOCIAL PROTECTION IN THE INFORMAL ECONOMY

THE SOCIAL PROTECTION DEFICIT IN THE INFORMAL ECONOMY

The lack of social protection is a key defining characteristic of the informal economy; it is also a critical aspect of social exclusion. The growth of the informal economy means that millions of people worldwide either have never had access to formal mechanisms of social protection or are losing the comprehensive forms of protection they once had, through their place of employment or from the State or a combination of the two. Yet those in the informal economy are most in need of social protection, not only because of their job and income insecurity but also, and importantly, because of the greater likelihood of their being exposed to serious occupational safety and health hazards. For many informal workers the workplace is the home, so that not only workers but also their families and even their neighbours may be exposed to safety and health hazards. Poor job quality and poor quality of life tend to go hand in hand. The HIV/AIDS pandemic also has implications for work and workers in the informal economy. With the disease wiping out huge numbers of the productive workforce in some countries, the inadequacy of social protection systems is increasingly evident.

At the same time, the lack of social protection in the informal economy also poses a threat to the formal economy: "The area of social protection illustrates the very real and direct interest, on the part of workers with 'normal' employment status and of their organizations, in bringing informal economy workers into the mainstream of formal employment. With shrinking formal employment, workers bear an increasing direct burden of financing social needs, with adverse effects on their quality of life. That burden may also undermine the capacity of enterprises to compete in the global economy".[1] There is a governance and compliance problem, and also an issue of inequality in that workers and their employers in the formal economy are obliged to bear the burden of financing the social security system, either through social insurance or through taxes, while informal economy workers do not contribute to social insurance or pay taxes – especially if they are informal in a deliberate attempt to avoid doing so.

The dimensions of the social protection gap can be judged from the fact that only some 20 per cent of the world's workers have truly adequate social protection and more than half of the world's workers and their dependants are excluded from any type of formal social security protection. They are covered neither by a contribution-based social insurance scheme nor by tax-financed social assistance. In sub-Saharan Africa and South Asia, formal social security personal coverage is estimated at 5 to 10 per cent of the working population, and in some cases is decreasing. In India, for example,

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[1] ILO: *Social security: Issues, challenges and prospects*, Report VI, International Labour Conference, 89th Session, Geneva, 2001, pp. 3-4.

less than 10 per cent of workers were covered in the mid-1990s, as compared to more than 13 per cent in the mid-1980s. In Latin America, coverage lies roughly between 10 and 80 per cent and is mainly stagnating. In South-East and East Asia, coverage can vary between 10 per cent (for a country like Cambodia) and almost 100 per cent (for the Republic of Korea, at least for health insurance). In most industrialized countries, coverage is close to 100 per cent, although in a number of these countries, especially those in transition, compliance rates have fallen in recent years.

> In most of its standard-setting and technical cooperation activities on social security, the ILO had expected that an increasing proportion of the labour force in developing countries would end up in formal sector employment or self-employment covered by social security. It implicitly assumed that past economic and social development patterns of the industrialized countries would replicate themselves in other regions. However, experience in developing countries – and more recently in the industrialized countries – has shown that this proportion is in many cases now stagnating or declining. Even in countries with high economic growth, increasing numbers of workers – often women – are in less secure employment, such as casual labour, home work and certain types of self-employment.[2]

As with the other decent work deficits in the informal economy, those individuals who are particularly disadvantaged in terms of rights and access to formal employment are also most disadvantaged in terms of social protection. Exclusion from social protection has important gender dimensions. First, in many countries, the majority of women workers are in the informal economy and their lack of social protection is another indication of their social exclusion. Second, women are the caregivers in society and recent social and demographic changes (reflected for example in migration, divorce, female-headed households, ageing and mortality patterns) have left more and more women with heavier burdens and fewer means to care for themselves and their families. Children who work in the informal economy, especially those in the worst forms of child labour, are not only exposed to physical and moral dangers; they are also missing out on education, which prejudices their chances of escaping the poverty trap as they grow up. Work-related impairment tends to be greater in the informal economy; yet in most countries outside the industrialized North, people with disabilities and those who sustain accidents or occupational diseases do not have social protection. Migrants, who tend to be drawn into the informal economy, also experience the same lack of access to protective measures, statutory systems of social protection and social support networks.

The traditional concept of *social security* is set out in ILO instruments: the Income Security Recommendation, 1944 (No. 67); the Medical Care Recommendation, 1944 (No. 69), and the Social Security (Minimum Standards) Convention, 1952 (No. 102), which identifies nine areas of social insurance: medical care as well as sickness, unemployment, old-age, employment injury, family, maternity, invalidity and survivors' benefit. Conventionally, social security includes compulsory national social insurance schemes (based on statutory contributions); social assistance (tax-financed benefits provided only to those with low incomes); and universal benefits (tax-financed benefits that are not subject to income or means testing).

However, there has been growing recognition of the need to broaden the concept of social security to take account of the problems faced by developing countries and

[2] ibid., p. 3.

the realities of the informal economy. With flexible and unstable employment and many more workers in the informal economy, what is needed is a broader concept of "*social protection*" which covers not only social security but also non-statutory schemes, including various types of new contributory schemes, mutual benefit societies and grass-roots and community schemes for workers in the informal economy.

This broader concept of social protection[3] is, in fact, what the ILO has adopted; it comes much closer to the goal and concept of decent work, which aims to protect everyone against the various risks and contingencies that arise in work, irrespective of where the work is performed. This decent work approach is evident in the resolution and conclusions concerning social security adopted by the 89th Session of the International Labour Conference in 2001, which stated that

> social security is very important for the well-being of workers, their families and the entire community. It is a basic human right and a fundamental means for creating social cohesion, thereby helping to ensure social peace and social inclusion. It is an indispensable part of government social policy and an important tool to prevent and alleviate poverty. It can, through national solidarity and fair burden sharing, contribute to human dignity, equity and social justice. It is also important for political inclusion, empowerment and the development of democracy. Social security, if properly managed, enhances productivity by providing health care, income security and social services. In conjunction with a growing economy and active labour market policies, it is an instrument for sustainable social and economic development. It facilitates structural and technological changes which require an adaptable and mobile labour force. It is noted that while social security is a cost for enterprises, it is also an investment in, or support for, people (paragraphs 2 and 3).

The reasons for low social protection in the informal economy

The Decent Work Agenda aims at universality of social protection coverage. But this goal is far from being achieved. There are, of course, some workers and employers who are informal in a deliberate attempt to evade social security contributions or tax, but most of those in the informal economy are not able or willing to contribute a relatively high percentage of their incomes to finance social security benefits that do not meet their priority needs. In addition, they may be unfamiliar with or distrust the way the formal social insurance scheme is managed. As a result, various groups of informal workers have set up schemes that better meet their priority needs and ability to pay. Moreover, several other factors restrict access of informal workers to formal social insurance schemes.[4]

Most workers in the formal economy who have stable and relatively adequate incomes are in a better position to contribute regularly to social security, including providing for their retirement. Informal workers, on the other hand, may not wish to save for retirement; in general, they give priority to more immediate needs, such as

[3] This broader definition of social protection has also been adopted by many countries and international and regional organizations. For example, the Statistical Office of the European Communities (EUROSTAT) includes housing and rent subsidies in the definition of social protection, and makes a distinction between social protection in cash and in kind. The EUROSTAT statistical definition has been increasingly accepted internationally.

[4] W. van Ginneken: "Social security for the informal sector: A new challenge for the developing countries", in *International Social Security Review* (Oxford), Vol. 52, No. 1, 1999, pp. 49-69.

food, housing, education and health care for themselves and their families. Most informal households already spend a considerable part of their budget on these needs. They may also seek protection in the case of death and disability. Psychologically, informal workers are normally so preoccupied with meeting their immediate survival needs that they are unable to be concerned or motivated to provide for a distant eventuality. Living from one day to the next, they can be faced with catastrophic risks that can throw them into a state of permanent indebtedness. Social security schemes cannot protect informal workers against all these risks and calamities.

In addition to having different social protection priorities from those of formal workers, informal workers also have a lower contributory capacity. The formal sector contribution rate for social insurance is usually about 20 per cent or more of the total payroll. Employees in the formal economy share these contributions with their employers. However, self-employed workers are often not prepared to pay the full contribution by themselves. In fact, they are often unable to do so. The irregularity of informal employment makes it unreliable as a source of income for social insurance contributions. Moreover, informal workers normally do not have other sources of income to contribute to compulsory social insurance schemes. As mentioned in previous chapters, for workers in disguised employment relationships, it is difficult to get the ultimate employer (or lead firm in a global chain) to assume responsibility for protecting these workers' rights, including the right to basic social protection, especially as there are definite financial and legal implications.

There are often legal restrictions on social protection for informal workers. In most developing countries, social insurance schemes are restricted by size of the employer (limited to larger employers, on the understanding that they have the financial capacity and better administrative support structures to comply with the obligations of the scheme); by geographical area; or by occupational group (often excluding the self-employed, domestic workers and casual workers).

Even when these restrictions based on legislation are recognized and removed, there may be institutional obstacles. Many developing countries do not have the institutional frameworks within which participation in the social security scheme can be organized, contingencies and entitlements defined, benefits established and contributions levied. Many schemes in developing countries find it very hard, if not beyond their capacity, to cope with the volume of administrative tasks associated with the operation of a social insurance scheme. Governments may be unwilling or unable to assume new and potentially costly commitments. Informal workers themselves may view the scheme as inefficient or not in their best interests and are therefore unwilling to comply. Informal enterprises may be so unstable that long-term commitments are meaningless. Both informal employers and workers may also be concerned that registration under the formal social security scheme may have other negative implications, such as greater pressure to comply with other types of legislation.

Improving social protection in the informal economy

Of highest priority are policies and initiatives which can bring social security to those who are not covered by existing systems. In many countries these include employees in small workplaces, the self-employed, migrant workers and people – many of them women – active in the informal economy. When coverage cannot be immediately provided to these

groups, insurance – where appropriate on a voluntary basis – or other measures such as social assistance could be introduced and extended and integrated into the social security system at a later stage when the value of the benefits has been demonstrated and it is economically sustainable to do so. Certain groups have different needs and some have very low contributory capacity. The successful extension of social security requires that these differences be taken into account. The potential for micro-insurance should also be rigorously explored: even if it cannot be the basis of a comprehensive social security system, it could be a useful first step, particularly in responding to people's urgent need for improved access to health care. Policies and initiatives on the extension of coverage should be taken within the context of an integrated national social security strategy. The fundamental challenge posed by the informal economy is how to integrate it into the formal economy. This is a matter of equity and social solidarity. Policies must encourage movement away from the informal economy. Support for vulnerable groups in the informal economy should be financed by society as a whole.[5]

Extending and adapting statutory social insurance

Whatever social insurance schemes have been made compulsory for a limited section of the labour force in the formal economy, legislators have usually envisaged extending their coverage at a later stage. However, as pointed out above, most developing countries have not done so, largely because they face serious problems in identifying, registering, educating, persuading and monitoring persons and businesses in the informal economy to ensure that they comply with all the rules of the scheme. Furthermore, even when compulsory social insurance schemes are extended to informal workers, they may not be successful if the benefit and contribution structures of the schemes are not appropriate for the various categories of informal workers. However, some countries have found ways to extend selected components of statutory social insurance to designated categories of the informal workforce, as can be seen from the examples given in box 4.1.

Most commonly, compulsory coverage is extended in stages by bringing successively smaller enterprises into the scheme. Each extension naturally expands the number of insured workers, but disproportionately increases the number of enterprises (and also often the problems, since small enterprises tend to have rudimentary accounting arrangements and are less likely to comply) with which the social security system must deal. While it is understandable, then, that less developed social security systems hesitate to try to cover all enterprises and workers in the informal economy, "experience in numerous countries has now shown that it is feasible. Indeed, it can be advantageous to abandon any threshold and so remove an incentive for employers to report artificially low numbers of workers. Many enterprises usually claim to be just below the threshold, and it is very difficult in practice to prove otherwise. Besides, a rule which encourages enterprises to remain small can seriously hamper their development and constrain productivity growth. The most compelling reason for covering even the smallest enterprises is that it is their workers who tend to be the lowest paid and to have least job security – they need social security even more than other employees".[6]

[5] ILO: *Conclusions concerning social security*, International Labour Conference, 89th Session, Geneva, 2001, paras. 5-6.

[6] ILO: *Social security: Issues, challenges and prospects*, op. cit., p. 30.

Box 4.1. Extending compulsory social security to the informal economy

Health insurance in the Republic of Korea: The Republic of Korea achieved its goal of universal health insurance coverage in 1989, within about 12 years of commencement of compulsory medical insurance in 1977. In the first instance, employees of large corporations were covered, followed by government employees and then employees of small enterprises. For the purpose of extending health insurance to the self-employed, the Government implemented a health insurance pilot programme in three rural areas in 1981, and in one urban area and two additional rural areas in 1982. In January 1988, the self-employed in rural areas joined the health insurance programme. In 1989 the self-employed in urban areas were the last remaining group to be covered. Both economic and political factors contributed to the rapid extension of health insurance to the self-employed. The booming economy in the late 1980s substantially improved the people's ability to pay for social insurance. The Government also had the fiscal capacity to subsidize health insurance for the self-employed. The presidential election in 1987 also motivated the ruling party and the Government to expand social welfare programmes as a major campaign agenda. The Government also responded to a campaign by farmers' organizations and other civic groups for health insurance reforms and increased its subsidy to health insurance for the self-employed from 33 to 50 per cent of the financing.

Source: S. Kwon: *The extension of health insurance in South Korea: Lessons and challenges*, unpublished document, 2001.

National pension scheme in Japan: In the early 1960s, while it was still a middle-income country, Japan succeeded in covering more than 90 per cent of its population with health as well as pension insurance. Depending on an individual's employment status, the insured entered different tiers of the social protection system. In the case of pension insurance, employees of large companies were insured by the Employee Pension System, with small subsidies by the Government, while employees of smaller businesses, farmers, self-employed and retired persons would become members of the then newly created National Pension System (NPS), financed by the Government to 33 per cent for general pensions and up to 100 per cent for certain types of pensions. While there are some financial problems surfacing today that are compounded by the rapid ageing of the population, the NPS succeeded in quickly extending pension insurance coverage to more than 18 million Japanese previously uninsured, most of whom were women.

Source: M.A. Chen; R. Jhabvala; F. Lund: *Supporting workers in the informal economy: A policy framework*, background paper prepared for this report, 2001, box 7.

Social security for home-based embroiderers, Madeira, Portugal: Since the mid-1800s, the island of Madeira has been well known for the handicraft of its many home-based women embroiderers. It was only in 1974, thanks to negotiations by the Union of Madeira Embroiderers, that the regional Government passed a law guaranteeing basic social security benefits (for old age and disability) to them. In 1979, another law was passed that integrated the embroiderers into the statutory social security system of Portugal and thereby awarded them additional benefits – for sick days and maternity leave. Since then, the union has also negotiated unemployment insurance for them and a lowering of the retirement age.

Source: ibid.

Other measures for extending social insurance have been suggested, including the following:

- revising the statutory schemes to facilitate partial membership by the self-employed, domestic workers, agricultural workers and those with a regular income from informal activities;
- strengthening the administrative capacity of the social security schemes, particularly in compliance, record-keeping and financial management;
- undertaking education and public awareness programmes to improve the image of the social security system;
- extending coverage within a prescribed timetable to all persons working as employees except in special groups such as domestic servants, family workers and casual workers;
- opening up new "windows" and offering benefits that suit the needs and contributory capacity of currently non-covered groups.[7]

Social security covers health care and family benefits and provides income security in the event of such contingencies as sickness, unemployment, old age, disability, employment injury, maternity or loss of a breadwinner. It is not always necessary or even in some cases feasible to have the same range of social security provisions for all categories of people. They can become more comprehensive in regard to categories of people covered and range of provisions as national circumstances permit. Where there is limited capacity to finance social security, priority should be given in the first instance to needs which are most pressing in the view of the groups concerned.

As the guarantor of social insurance schemes, government obviously plays a critical role. But in order to be effective, initiatives to establish or extend social security require social dialogue. Even in the absence of a direct employer-employee relationship, the principle or precedent of employer contributions to the protection of workers can be – and has been – used to leverage employer or state contributions to special funds for informal workers. In India, for example, there are Acts that empower the Government at both national and state levels to constitute special funds to provide social security benefits to workers by imposing a tax (or cess) on the aggregate output of selected industries. The Bidi Workers' Welfare Fund is a national fund that is constituted from a tax on bidis (hand-rolled cigarettes). There are similar welfare funds at the state level, such as the headloaders' fund in Gujarat and Maharashtra States, to which employers pay a levy. The social assistance benefits and services under these welfare funds provided by the Government but monitored by tripartite boards include housing allowances, school scholarships, health and other benefits. These funds are designed to overcome the necessity of a clear employer-employee relationship and to redistribute some of the profits of the industry to the workforce. However, implementation is often problematic; for example, surveys of bidi workers reveal that many do not receive any benefits because of abuse or corruption on the part of employers or contractors, in particular in terms of issuing identification cards that would confirm their status as bidi workers entitled to such benefits.

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[7] W. van Ginneken: *Social protection for workers in the informal economy: New challenges for Asia and the Pacific*, report to the Twelfth ISSA Regional Conference for Asia and Pacific, Bangkok, 20-23 Nov. 2000, p. 13.

Encouraging micro-insurance and area-based schemes

In many developing countries, protection against social risks not prescribed by law or otherwise afforded by the State or through employers has been provided by the family or community.[8] Especially where social norms still play a large role in influencing social behaviour, there are several examples of informal social insurance mechanisms based on principles of either solidarity or reciprocity. However, the benefits from such informal sources are seldom adequate and often uncertain, especially during widespread or prolonged crises.

In recent years, various groups of informal workers have set up their own micro-insurance schemes. The use of the term "micro-insurance" reflects the ability to handle small-scale cash flows (whether in terms of income or expenditure), not the size of the scheme, though the schemes are often local and have a very small membership. Micro-insurance is based on the premise that groups that are not covered by existing systems can define their own set of priority needs, that these needs can be insured and that the members of the group are willing to pay for this insurance (see box 4.2, and the section on "The role of cooperatives" in Chapter V). The groups may be based on area of residence, occupation, ethnic affiliation or gender.

> Micro-insurance is not merely another form of insurance or health-care financing. It is a form of social organization, based on the concepts of solidarity and risk-pooling, which involves the active participation of the group's members. Typically these groups are already organized, for example, to provide microcredit facilities to their members: micro-insurance is often therefore an extension of their activities. The organizations may use some of the surplus from their core activities to finance the health insurance scheme. They may also obtain subsidies from the public authorities, from international aid agencies (in particular seed capital), and in certain cases from state-owned insurance companies.[9]

The primary aim of many of these schemes is to help their members meet the unpredictable burden of out-of-pocket medical expenses. They do not aspire to provide comprehensive health insurance, still less to pay income replacement benefits. These schemes are normally independently managed at the local level and sometimes the local unit links into larger structures that can enhance both the insurance function and the support structures needed for improved governance. Such schemes typically have the advantages of cohesion and direct participation, and they can also achieve low administrative costs.

However, it is important to point out that micro-insurance schemes cover only a very small proportion of the informal workforce anywhere. They "do not offer the same scope for solidarity as national, compulsory schemes covering both low-income and high-income earners. They may therefore be seen as a staging post on the road to compulsory social protection. It is of course vital to ensure that formal sector employers do not see them as a cheap substitute for social security and thus as an encouragement to informalize more of their activities".[10] Certainly, micro-insurance schemes are

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[8] See, for example, C. Mesa-Lago: "Protection for the informal sector in Latin America and the Caribbean", in V.E. Tokman (ed.): *Beyond regulation: The informal economy in Latin America* (Boulder, Colorado, Lynne Rienner Publishers, 1992), pp. 169-206.

[9] ILO: *World Labour Report 2000: Income security and social protection in a changing world* (Geneva, 2000), p. 87.

[10] ILO: *Trade unions and the informal sector: Towards a comprehensive strategy*, background paper for the International Symposium on Trade Unions and the Informal Sector, Geneva, 18-22 Oct. 1999, p. 37.

Box 4.2. Micro-insurance in the informal economy

The UMASIDA scheme, United Republic of Tanzania: In 1995, an ILO project facilitated the establishment of an umbrella organization of informal economy associations called UMASIDA (an acronym for Mutual Society for Health Care in the Informal Sector). UMASIDA now has a written constitution and is led by an executive committee. At the beginning of 1999, it counted 1,800 contributing members from about ten different associations. Members contribute Tsh1,000-2,000 (less than US$2) a month, which is deposited in a centralized UMASIDA account. The exact amount contributed varies from group to group depending on the benefiting dependants (spouses, children and parents) as well as on the health-care package. In general, UMASIDA covers the costs of primary health care, laboratory investigations and treatment. The advantage of the scheme is that it provides access to quality health care at an affordable cost. In various groups, UMASIDA's intervention has also resulted in health promotion activities at work and at home, such as on work-related accidents and preventable diseases. A general problem is that contributions are dependent on season or business activity and are often irregularly paid, especially by the smaller groups.

Source: ILO: *World Labour Report 2000: Income security and social protection in a changing world* (Geneva, 2000), p. 89.

Mutual health insurance scheme, Bolivia: The Instituto Politécnico Tomás Katari (IPTK), a non-governmental organization, instituted a mutual health insurance scheme in 1996 which covers basic health-care services, including preventive care and health promotion, out-patient care, medicines and other services to its members and the general public. More than half its members, including home-based workers and other informal workers, are excluded from other social security systems or earn income below the poverty line. IPTK had 2,000 members by 1998, and handles about 35,000 consultations per year. The scheme is financed primarily through member contributions but has also received grants from development agencies.

Source: M.A. Chen; R. Jhabvala; F. Lund: op. cit., box 8.

Grameen Kalyan, Bangladesh: is a not-for-profit company that in 1997 took over the Rural Health Programme (RHP) founded by the Grameen Bank. The RHP acts both as an insurer and as a health provider, i.e. through health centres attached to branches of the Grameen Bank. As an insurer, RHP collects annual premiums (about US$5 per family) from members associated with a health centre. Non-Grameen Bank members can also use the facilities of the health centre for a fee commensurate with the market rate for the service. About 75,000 families are covered by the scheme.

Source: W. van Ginneken: *Social protection for workers in the informal economy: New challenges for Asia and the Pacific*, Twelfth ISSA Regional Conference for Asia and the Pacific, Bangkok, 20-23 Nov. 2000, p. 9.

SEWA's Integrated Insurance Scheme: the Self-Employed Women's Association (SEWA) runs the largest comprehensive contributory social protection scheme for informal workers in India today. One-third of the premium is financed through interest paid on a grant provided by the German technical cooperation agency (GTZ), one-third through direct contributions by women workers and one-third through a subsidized package scheme provided by the Life Insurance Corporation of India and the United India Insurance Company. SEWA members can choose whether to become members of the scheme, which covers health insurance (including a small maternity benefit component), life insurance (death and disability) and asset insurance (loss or damage to housing unit or work equipment). SEWA has also designed the payment of premiums to suit different income groups among the very poor.

Source: F. Lund; S. Srinivas: *Learning from experience: A gendered approach to social protection for workers in the informal economy* (Geneva, ILO, 2000), pp. 132-133.

not in themselves as secure as broader national systems in that a calamity within a community or other factors that force workers to change their work, and hence destroy the basis of trade organizations, can at the same time destroy the capacity of linked insurance schemes to serve the needs of their members.

Several measures can be proposed to expand and strengthen micro-insurance for informal workers. One option is for such schemes to form organizations among themselves, which will enable them to achieve various objectives, including stronger negotiating power with regard to the government as well as public and private health providers, sharing of knowledge and greater financial stabilization through reinsurance. A second approach is to devote more effort to the marketing of micro-insurance, as a large percentage of the target population may still not be well informed of the benefits of being insured. Obviously, the role of the government is critical for the successful upscaling of these schemes; for example, government subsidies could undoubtedly expand coverage. Local governments can play an important role in setting up area-based social protection schemes, in partnership with local groups of civil society. Area-based schemes have the advantage that administration costs tend to be low and local participation and control can be included in the design of the scheme.

Promoting cost-effective tax-based social benefits

Many developing countries have set up category-based and/or social assistance schemes that are aimed at people in need who cannot be reached by employment or other social policies and who have not been able to protect themselves through social insurance. Such schemes are predominantly contingency-based and limit support in cash or in kind to specific needy groups. Social assistance schemes are often costly owing to the high administrative cost of applying complex means tests. Category-based benefits need not be too costly, however, if the category of persons eligible can be narrowly defined.

In South Africa, for instance, the old-age pension scheme is a programme of cash transfers which is non-contributory, means tested and well targeted on poor elderly people. It is a vital form of support for retired informal workers who were never able to

save for their own retirement. In addition, and very interestingly, studies show how the reliability of this state assistance means that it can be used as a form of collateral for agricultural and other enterprise inputs, as well as securing the position of elderly people in the multigenerational households in which many live. Women are eligible at a younger age than men and can thus draw it for more years, as they normally live longer than men. In Brazil, too, the pension scheme provides similar benefits to workers in the informal economy.[11]

Occupational safety and health in the informal economy

A major reason why social protection is especially critical for informal workers is that they are much more likely than formal workers to be exposed to poor working environments, low safety and health standards and environmental hazards. Such exposure impairs the health and productivity as well as the general well-being and quality of life of informal workers and their families (see box 4.3). But often they are not even aware of the risks they face, and, if they are, they do not know how to avoid them. Low

Box 4.3. Health and productivity: Returns to health care

In *Peru*, an econometric analysis was conducted based on the 1995 National Household Survey which collected socio-economic and demographic data on nearly 20,000 households and 99,000 persons. The econometric model predicted that the reduction of one reported day of illness per month would increase the wage rate of urban and rural women by 3.4 and 6.2 per cent, respectively. For men, the increase was larger – 4.7 and 14.2 per cent in urban and rural areas, respectively. Consequently, public and private investment in health should be recognized as mechanisms for increasing household income, principally in rural areas where rates of return to health are high.

Source: R. Cortez: "Health and productivity in Peru: Estimates by gender and region", in W.D. Savedoff and T.P. Schutz (eds.): *Wealth from health: Linking social investments to earnings in Latin America* (Washington, DC, Inter-American Development Bank, 2000), cited in J. Thomas: *Regional report on decent work in the informal sector: Latin America*, background paper prepared for this report (Dec. 2001).

In *Nicaragua*, data from the 1993 Living Standard Survey were analysed to study the links between health variables, broadly defined, and productivity. The results suggested that poor health could reduce productivity by up to 58 per cent. Important health-related variables were the condition of urban housing, rural sanitation and the supply of preventive care services by nurses. A community programme, Casa Mujer, in which women organize to provide public services, also has a demonstrably positive impact on the health of rural women and men.

Source: J. Espinosa; C. Hernández; W.D. Savedoff: "Productivity and health status in Nicaragua", ibid., cited ibid.

[11] M.A. Chen; R. Jhabvala; F. Lund: *Supporting workers in the informal economy: A policy framework*, background paper prepared for this report (Nov. 2001), pp. 46-67.

levels of technology, low productivity, irregular employment relationships and lack of investment capacity tend to increase the exposure of informal workers to occupational accidents and diseases. Inadequate technical and managerial skills are aggravating factors. For the many women informal workers who combine productive activities in their home with child rearing and household chores, the usual hazards are compounded by poor housekeeping and long hours of work.

Work-related risks are often closely linked to risks arising out of the inadequacy of the living environment, since the home is often the workplace. So it is not just informal workers but also their families and even neighbours who may be exposed to various occupational hazards and accidents and are vulnerable to diseases and poor health. For informal workers who operate in open spaces or in locations not legally recognized for the purpose and with no right of ownership, their occupational safety and health problems are also linked to their lack of access to sanitary facilities, potable water, electricity or waste disposal.

National and local authorities do not have adequate knowledge of the problems relating to health and safety in the informal economy. As the informal economy is not covered by national recording, notification and compensation systems, there is not much information on occupational accidents and diseases arising from hazardous working conditions which could be used for the identification of priority areas of prevention. Institutional responses to these problems are often weak, especially as the labour inspectorates in developing countries lack staff and resources. Since much informal work takes place within the privacy of homes, it is very difficult for labour or health inspectors to find, contact and enter the homes to carry out the necessary investigations and develop programmes to improve conditions and reduce hazards.

The ILO has gained some experience on addressing the problems outlined above. For example, in Dar es Salaam, United Republic of Tanzania, an innovative model combined the extension of occupational health services using the existing public health structure and a community health approach; advice on low-cost improvements at the micro-enterprise level to prevent injuries and diseases; and the introduction of a self-sustainable health insurance scheme (see box 4.2 on UMASIDA above).[12] A follow-up project extended the efforts both within the country and to Senegal and Nigeria. The ILO has also conducted pilot activities in the Philippines, Malaysia and Nepal under the Work Improvement and Development of Enterprise (WIDE) Programme to help micro-enterprises to simultaneously improve their incomes, productivity and working environment.

The challenge of improving occupational safety and health in the informal economy is not so much a matter of attempting to enforce compliance with regulations as of providing informal operators and workers with information and guidance on often simple and inexpensive measures that can be taken to reduce risks. Training is a crucial tool to raise awareness and improve work practices in the informal economy. In this regard, the ILO has developed several training packages with different objectives. For example, a modular training package, Participatory Action Training for Informal Sector Operators (PATRIS), has been produced to demonstrate the link between productivity and im-

[12] See V. Forastieri: *Improvement of working conditions and environment in the informal sector through safety and health measures*, Occupational Safety and Health Branch Working Paper, OH/9907/08 (Geneva, ILO, July 1999).

provement of working conditions. This practical and simple training method emphasizes voluntary participation in the implementation of concrete improvements in the participants' workplace. It deals with such issues as the physical environment, the premises, ergonomics, welfare facilities, work organization and health promotion. The package has been tested in the United Republic of Tanzania and Nigeria.

Training to improve occupational safety and health in the informal economy can be usefully linked to small business management training. This is being done by the ILO using the Improve your Work Environment and Business (IWEB) modular package. This programme for micro-manufacturers combines small business management training (based on the Start and Improve Your Business (SIYB) training package) with the promotion of job quality, in particular improved working conditions and good management of workers and their environment (see box 6.5). It is based on the argument that better job quality will result in a more competitive and successful business. As in the case of PATRIS, the IWEB package links better working conditions with other management goals, such as higher productivity. It builds on local practices, uses a learning-by-doing method, encourages the exchange of experience and promotes workers' achievements. Providers of business development services are the channels through which enterprises can gain access to these programmes that enable them to improve their quality of work.

ILO experience shows that successful approaches to promoting occupational safety and health in the informal economy are those that are linked as much as possible to efforts to extend social protection and to encourage employment creation. Occupational safety and health should be part and parcel of efforts to improve job quality as well as quality of life in the home and in local communities, moving towards the goal of decent work. In this regard, an important component of any successful strategy is the sensitization of policy-makers, municipal authorities and the labour inspectorate about the basic right of informal workers to decent working conditions.

In addressing the safety and health problems of workers, especially the poor, in the informal economy, the role of labour inspectors may need to be reviewed. Labour inspection has been seen in the past as an exercise in setting standards, monitoring whether these are being met and issuing penalties when they are being contravened. Instead of simply monitoring and issuing penalties, labour inspectors could help the workers themselves to improve their health and safety and thereby their productivity. Labour inspectors, as well as health inspectors, could play a facilitative role. They could work with others who are familiar with life and work in the informal economy, including labour inspection auxiliaries (for instance, recruited from among retired craftspeople) and, importantly, business development service providers.

In order to reach informal workers where they live and work and to respond to their needs, information and training should be provided through non-formal education programmes. Training should be flexible and adapted to the situation of the workers according to the sector or type of employment relationship. Where relevant, distance education techniques may be used.

What is being sought are simple, low-cost measures to prevent accidents and protect health through the introduction of ergonomic improvements, better workplace conditions and practices, improved use of tools and machinery and replacement of toxic or potentially toxic substances. Training should also be provided to health-care personnel (medical, paramedical and nursing personnel) on the occupational safety and health issues affecting informal workers.

At the same time, owners of micro- and small enterprises need to be convinced that job quality is good for business.[13] Business development service providers can play a role in raising the awareness of these business owners. Although largely untried for this purpose, they definitely have potential as a channel for improving job quality in informal micro-enterprises. Business owners are more likely to attend (and pay for) training that enables them to become more competitive (through better job quality) than training or advice that just promises them a more healthy environment. Mass media and social marketing approaches are also promising ways to improve job quality, including occupational safety and health, in micro- and small enterprises. These approaches have proven effective for changing people's attitudes and behaviour in related areas such as human rights, productivity and environmental protection.

Promoting occupational safety and health in the informal economy could also be organized through cluster programmes. Practical steps would include, firstly, defining clusters within which activities could be organized. These might be clusters of specific subsectors or local communities where large numbers of informal workers are active and where significant health and safety problems exist. Walk-through surveys and interviews of workers by qualified health and safety officers could help identify the problems and indicate the types of immediate corrective action possible.

Cluster programmes should ideally be linked to wider municipal or district programmes that might include environmental health, environmental management and primary health-care programmes. The health promotion activities for the extension of occupational health can be carried out in collaboration with established public health-care facilities at the municipal and district level which are in the vicinity of the clusters. Such activities can cover simple means of preventing diseases, including HIV/AIDS. Hygiene education can involve keeping wells and water sources in general clean, personal hygiene and hygienic food handling and cooking habits. In order to extend their services to the clusters, it would be useful to create a referral system involving the first-aiders in each cluster.

Workers' and employers' organizations could play an important role in the development of occupational safety and health programmes for informal workers and operators. Health and safety committees could be established in the clusters in consultation with representatives of the concerned workers and micro-entrepreneurs. First-aid training could be given to a selection of volunteers within the clusters. Capacity building of workers' and employers' organizations should be given particular attention. For example, a guide to good practice and a training manual could be produced locally, based for instance on the model provided by the PATRIS manual, to train the health and safety committees to operate more effectively.

Given women's participation in the informal economy and their roles as caregivers, workers and users of services, their experience, knowledge and skills should be taken into account in all these activities. Women should have active participation and voice in the local mechanisms set in place to improve working conditions.[14]

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[13] The issue of job quality is discussed in Chapter VI. See also ILO: *Job quality: It's just good business* (Turin, International Training Centre of the ILO, undated [2001]).

[14] See V. Forastieri: *Information note on women workers and gender issues on occupational safety and health*, InFocus Programme on Safety and Health at Work and the Environment, doc. OH/9903/01 (Geneva, ILO, 2000).

THE IMPLICATIONS OF HIV/AIDS FOR SOCIAL PROTECTION IN THE INFORMAL ECONOMY

In many developing countries, particularly in sub-Saharan Africa, the HIV/AIDS pandemic is having a catastrophic effect on almost every aspect of society. Although a lot more research is required, there are obvious implications for work and social protection in the informal economy.

Of the 36 million people infected with HIV worldwide, at least 23 million or nearly two-thirds are working people aged 15 to 49 in what are normally the most productive years of their lives. In the countries where most of the labour force is working in the informal economy, most of the people with HIV/AIDS would naturally be found there. Even those who are in formal employment may face prejudice and discrimination and be forced to leave their formal jobs. Without adequate social protection, they may have no choice but to find alternative means of income – in the informal economy.

How to implement the ILO code of practice on HIV/AIDS[15] in the informal economy is a critical challenge. Given the very high percentage of employment found in informal enterprises, there is an urgent need to amass knowledge of the situation of HIV/AIDS in these enterprises, identify good practices on how to address the problem and develop practical and innovative approaches and tools to prevent HIV/AIDS and mitigate its impact in the informal economy. One approach which should undoubtedly be investigated more thoroughly is the development of prevention and care programmes in the context of the mutual health funds which are being established for small enterprises and informal operators in many countries.[16]

For employers in small firms, the loss of one or more key employees may be catastrophic, leading to the collapse of the firm. In rural areas, losses due to HIV/AIDS have led to reduced food production and declining food security, as well as a reallocation of labour and time from agricultural work to non-agricultural care activities. Very importantly, HIV/AIDS has led to increased demands for spending on health and social welfare, and the cost of insurance benefits for households, companies and governments has increased. Some companies have reported a doubling of medical expenses over a five-year period, while employees who fall ill have to divert their savings into medical care. Some employers have also adopted the practice of recruiting staff on casual or short-term contracts to avoid paying disability, death or other benefits.[17]

When a member of a family is infected by HIV/AIDS, this can affect the family in a number of ways. The main breadwinner may no longer be able to work. Thus, other less qualified members of the family, including children and the elderly, may have to seek work in order for the family to survive – the chances are that they will only be able to find work in the informal economy. It may also be necessary for a family member to work from home in order to care for a sick relative, leading to home work, which is often informal. In the event that those infected are already working in the informal economy, their productivity may be significantly reduced; this may also lead to children having to leave school to help generate income. Often, the most vulnerable

[15] ILO: *HIV/AIDS and the world of work: ILO code of practice* (Geneva, 2001).

[16] ILO: *HIV/AIDS: A threat to decent work, productivity and development*, document for discussion at the Special High-Level Meeting on HIV/AIDS and the World of Work, Geneva, 8 June 2000, p. 30.

[17] ibid., pp. 21 and 29.

segments of the population – normally the old, especially older women, and children – are left to care for those afflicted with the disease and, later on, to care for themselves; yet they are the ones most likely to be without any form of social protection.

The HIV/AIDS pandemic has served to underline the gravely inadequate nature of social protection systems in the countries most affected. It is doubtful that the existing financing available in social protection systems would be sufficient to cope with the consequences of the HIV/AIDS pandemic. Many of the individuals who have been infected have no social security coverage. As a result, they typically do not have access to the quality medical care they require. Nor do their dependants, if they are breadwinners, receive any replacement income when they die or are unable to continue working. Informal social protection mechanisms (extended family, local community) are also being stretched beyond breaking point by the large numbers of adult breadwinners now being struck down in their prime. "Never was it more clear why social solidarity and risk-pooling must be organized on the widest possible basis: this is vital in order to ensure that all the necessary help is channelled to the family, groups, communities and regions most direly affected."[18]

[18] ILO: *Social security: Issues, challenges and prospects*, op. cit., p. 6.

CHAPTER V

STRENGTHENING REPRESENTATION AND VOICE IN THE INFORMAL ECONOMY

THE REPRESENTATIONAL GAP IN THE INFORMAL ECONOMY

"People in informal work represent the largest concentration of needs without voice, the silent majority of the world economy."[1] Everywhere in the world, people in the informal economy are excluded from or under-represented in social dialogue institutions and processes. In order to secure and exercise an independent voice at work, workers and employers need representational security. Representational security at work is based on the freedom of workers and employers to form and join organizations of their own choosing without fear of reprisal or intimidation. As emphasized in Chapter III, freedom of association and the right to organize constitute a fundamental human right. It is also a key enabling right. If workers or employers are denied the possibility of organizing, they will not have access to a range of other rights at work.

The framework of law and governance protecting and enforcing this right is therefore critical.[2] However, a number of countries still prohibit the independent formation of any type of organization by all or specified categories of workers, or limit the freedom of workers and employers to form and join organizations of their choice. The Global Report to the International Labour Conference in June 2000 cites countries which still deny the right to organize to agricultural workers and countries which exclude domestic workers from the coverage of legislation which otherwise guarantees the right to organize.[3] Another excluded category is often migrant workers, who also tend to be concentrated in the informal economy.

In addition to legal provision for the right to organize, there must be the necessary measures to ensure effective protection against anti-union discrimination and employer interference. But there can often be extra-legal or informal denial or discouragement of the right to organize. Over the past years, acts of anti-union discrimination have accounted for the second largest percentage of types of allegations examined by the ILO Committee on Freedom of Association.[4] Because of the precariousness of their employment, informal economy workers may not join unions because of fear of reprisals.

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[1] ILO: *Reducing the decent work deficit: A global challenge*, Report of the Director-General, International Labour Conference, 89th Session, Geneva, 2001, p. 64.

[2] The need for a framework of law and governance within which organizing and representation can effectively take place is also discussed in the subsection of this chapter on "The role of national and local governments".

[3] ILO: *Your voice at work: Global Report under the follow-up to the ILO Declaration on Fundamental Principles and Rights at Work*, Report I (B), International Labour Conference, 88th Session, Geneva, 2000, p. 31.

[4] ibid., p. 33.

> Attempts to address these denials require providing for adequate protections against acts of anti-union discrimination. But they should also include pre-emptive action which aims at establishing wide acceptance of the right to organize and the proposition that its violation is neither useful nor tolerable. The overall challenge is to create a climate in the formal as well as the informal economies which enables free organization, and where those engaged in it can act without fear of negative consequences.[5]

Even where they have the right to organize, informal operators and workers are rarely organized. They seldom have their own membership-based organizations to represent their interests.[6] Where they have mobilized and organized themselves, it has been at grass-roots or community level, in self-help groups or in trade-based associations. Micro-entrepreneurs and the truly self-employed have been more likely to organize than dependent workers in the informal economy.[7] However, organizations in the informal economy are normally characterized by fragility, structural constraints and limited effectiveness. They are rarely officially registered or recognized and therefore have limited access to and influence over relationships with the institutions and enterprises of the formal economy or with the public authorities. Only in a small (albeit growing) number of cases are they affiliated to formally structured national or international organizations of employers, chambers of commerce, trade unions or co-operatives. The *World Labour Report 1997-98* concluded that "the existing informal sector associations tend, in fact, to have a limited geographical coverage, and their effectiveness and sustainability are undermined by the irregularity and instability of their members' employment and incomes. Their daily struggle for survival, their lack of managerial and technical skills, and their limited ability to mobilize assets from external sources limit the coverage of these organizations and their range of services and activities".[8]

Women and youth, who make up the bulk of informal workers, are especially without voice – whether for pursuing their employment interests through collective bargaining or for lobbying with politicians and bureaucrats on issues such as access to infrastructure, property rights, environmental concerns and social security. The obstacles to organizational processes are normally more severe for women than for men – because of women's multiple roles and responsibilities at the workplace and in the home. And within mixed-sex organizations, functions and positions tend to be influenced by gender – so that women are under-represented in decision-making positions. In recent years, however, there has been a proliferation of women's groups in the informal economy, which is partly a reflection of the concentration of women in the informal economy and partly a result of the growing efforts by these women themselves and with other social actors to combat gender discrimination and improve social protection. While there are some highly visible and active exceptions, the majority of

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[5] ibid., p. 28.

[6] In Manila, for instance, a National Statistics Office survey found that 93 per cent of people (and 96 per cent of women) in the informal economy did not belong to any self-help group and 54 per cent saw no advantage in being a member of such groups. G. Joshi: *Urban informal sector in Metro Manila: A problem or solution?* (Manila, ILO/SEAPAT, 1997), p. 54.

[7] ILO: *World Labour Report 1997-98: Industrial relations, democracy and social stability* (Geneva, 1997), pp. 195-197.

[8] ibid., pp. 216-217.

these women's informal organizations are grass-roots-based and have limited influence outside of their local communities.

The Global Report to the International Labour Conference in June 2000[9] also highlighted the impact of the growth of the informal economy on collective representation. Trade union membership, whilst generally remaining significant in large workplaces, has decreased in almost all parts of the world in the last decade. Employers' organizations have been facing important challenges, especially with the burgeoning of micro- and small enterprises. The relevance of collective representation may not always be obvious when workplaces are small or in activities where there is little experience of collective organization and representation of interests. Both trade unions and employers' organizations have been rethinking and revising their structures, policies and strategies to organize and represent informal economy interests, but continue to face formidable obstacles and challenges.

Closing the representational gap is crucial for all concerned. For those working in the informal economy, the representational gap is an important reason for their inadequate legal and social protection and their lack of access to productive assets, capital and product markets, training systems, public services and amenities. Without effective freedom of association, they are not able to exercise countervailing power to make their work recognized, protected, formal and decent. Workers' and employers' organizations are neither obliged to organize nor responsible for organizing the informal economy – only for protecting the right of all workers and employers to organize and join organizations of their own choosing. Yet how they enhance voice in the informal economy could affect their own future in terms of membership, representativeness and social and political influence. In the context of today's flexible labour markets and global production systems, it will be increasingly impossible for either trade unions or employers' organizations to maintain or improve conditions in the formal economy without at the same time addressing the informal economy. How the social actors respond to the informal economy will also determine the future of strong and cohesive tripartism. For governments, workers' and employers' organizations and also for other members of civil society, "given the size of the informal economy, the gap between the formal and the informal will continue to be the most important divide in society, and a hindrance to equitable growth".[10] Government policies and legislation can play a key role in either supporting or eroding collective representation and social dialogue in the informal economy.

To close the gap will require innovative methods of organization and representation and will involve finding the structures, policies and organizational alignments best suited to the changing nature of the formal and informal economies. "The extension to the informal economy of the goal of decent work cannot depend exclusively on the mechanisms of state regulation and representation which are applied elsewhere. We need new ways to increase economic capabilities and strengthen voice, to defend rights, to generate and transfer resources and change incentives. There is often scope for new forms of action by existing actors, but there is also a need for new actors and new institutions to raise skills, open markets and improve working conditions."[11]

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[9] ILO: *Your voice at work*, op. cit.

[10] ILO: *Reducing the decent work deficit*, op. cit., p. 68.

[11] ibid., p. 30.

Strengthening representation and voice in the informal economy

In describing measures to strengthen voice in the informal economy, the role of each of the tripartite partners – governments and workers' and employers' organizations – is dealt with separately below. But it is important to bear in mind what they can accomplish together through social dialogue. It is also useful to remember that in addition to collective bargaining, other forms of social dialogue can be significant. "Voice regulation" through tripartite systems of consultation and negotiation at national or sectoral level has been increasingly recognized as a dynamic and effective means of promoting efficiency and addressing equity and distributional issues in both the formal and informal economies in the context of globalization.[12] It is also important to recognize the diversity of civil society groups, movements and non-governmental organizations (NGOs) which give visibility to and provide advocacy on informal economy issues but do not represent those in the informal economy, as they are often not membership-based or do not have democratic structures.[13] Some of these groups and organizations have been very active and vocal at national and international levels,[14] and their experience in organizing and their network structures can be tapped by the social partners. There are increasing examples of cooperation and alliances between some of these organizations and trade unions and employers' organizations.

The role of national and local governments

Government policies and legislation are key elements in determining the enabling or disabling environment for organization and representation of those in the informal economy. The voice deficit in the informal economy cannot be effectively and sustainably addressed in the absence of a supportive legal framework and governance. The most important role of governments in this regard is to guarantee the freedom of all workers and employers, irrespective of where and how they work, to form and join organizations of their choosing without fear of reprisal or intimidation. Respect for freedom of association allows the development of the institutional means of representation most relevant to the particular context and issue – be they associations of traders

[12] For a discussion of voice regulation as compared to statutory and market regulation, see G. Standing: *Global labour flexibility: Seeking distributive justice* (Basingstoke, Macmillan, 1999). See also ILO: *Your voice at work*, op. cit., pp. 19-20.

[13] Only organizations that derive their legitimacy from the constituency they represent can legitimately claim to speak in the name of their members. Any such organization should be driven by democratic rules (for example, election of leaders, assemblies), transparency and accountability to members. Organizations such as NGOs can play an important role in giving visibility to and advancing the cause of informal operators and workers. However, where they are not managed and owned by the latter but rather derive their authority from a board of trustees or similar body to which they are accountable for their programmes, policies and performance, they cannot speak on behalf of informal operators and workers.

[14] Well-known examples include the Self-Employed Women's Association (SEWA) and the Working Women's Forum (WWF) in India and the Self-Employed Women's Union (SEWU) in South Africa. International networks of informal workers have also developed, including StreetNet, a network of individual vendors, activists, researchers and supporters; HomeNet, a network of organizations representing homeworkers; and Women in Informal Employment Globalizing and Organizing (WIEGO), a worldwide coalition of organizations and individuals concerned with coalition building to improve statistics, research, programmes and policies in support of women in the informal economy.

in the informal economy, rural cooperatives, women's organizations, trade unions or employers' organizations. Strategies for the collective representation of interests by these institutions should also be able to evolve in a way that most appropriately addresses the particular issue of concern – whether it is a negotiation concerning the use of land; a delegation of workers or employers addressing the government concerning public infrastructure or the implications of a trade agreement; a demonstration or campaign against child labour or violence against women; or social dialogue to increase the level and coverage of minimum wages.

It is often the poorest of the world who take the greatest personal risks when they try to become organized and get their voice heard where power resides, whether it is with the local landlord, contractor, employer or public authority. But today the categories of workers who are either not covered by or specifically excluded from legal protection of their fundamental right to freedom of association and to bargain collectively include large numbers in the informal economy – many of them agricultural workers and domestic workers.[15] Since women account for the majority in these categories, they are especially without voice and further isolated and vulnerable.

It is not enough to grant informal workers the right to join or create organizations of their choosing. In addition to fostering representative, democratic and functional organizations in the informal economy, the State must recognize their role as interlocutors and/or partners in policy-making or programme implementation at national and local levels (and at the same time withhold recognition or support from non-accountable, non-membership-based organizations claiming to represent those in the informal economy). The State also needs to promote avenues and mechanisms for regular dialogue involving organizations of informal workers and established trade unions and employers' organizations, as well as for collective bargaining and other forms of civil dialogue. For example, this may be done by expanding the scope of existing national tripartite bodies or collective bargaining processes, or facilitating innovative mechanisms specifically tailored to a particular segment of the informal economy.

A major problem faced by informal economy organizations is their lack of defined interface with those with whom they need to dialogue. Often they are not recognized by public authorities and have to rely on established trade unions or employers' organizations to speak on their behalf. Without recognition by government authorities, informal organizations have no voice in public policy debates or access to the services and infrastructure they need to operate effectively and efficiently, and are vulnerable to harassment or eviction by the authorities. In fact, it is this lack of official recognition and hence lack of legitimacy that contributes to informality or hinders the move towards formal activities within the economic and social mainstream and regulatory frameworks.

For associations in the informal economy to be legitimate and recognized, they should be legal entities. But all too often registration procedures are cumbersome, time-consuming and expensive. For example, the well-intentioned attempt of the Government of Côte d'Ivoire to encourage the establishment of a national crafts organization failed because the registration procedures were too complicated and the

[15] See ILO: *Review of annual reports under the follow-up to the ILO Declaration on Fundamental Principles and Rights at Work*, Governing Body doc. GB.277/3/1, 277th Session, Geneva, Mar. 2000.

institutional mechanisms for consultations and negotiations were along top-down lines rather than reflecting the existing structures among the local craft associations. On the other hand, the policy of the Government of the Philippines to obtain recognition for organizations in the informal economy by means of straightforward, accelerated and low-cost rules and procedures greatly enhanced the social legitimacy of these organizations. Furthermore, the Government supported the establishment of structures to give informal workers' representation a stronger voice. For example, a National Steering Committee on Home Work was established in 1991 comprising the Department of Labor and Employment, the Trade Union Congress of the Philippines, some NGOs and the network of homeworkers' associations, PATAMABA. As a result of its participation in the Committee, PATAMABA expanded its visibility and public recognition, broadened its access to new sources of assistance and aid and, significantly, was able to take part in and influence the work of the National Tripartite Conference which approved amendments to the Labor Code provisions pertaining to home work.[16]

The role of local governments is crucial for a number of reasons. There is increasing emphasis on administrative decentralization in many countries. It is access to local-level infrastructure and services and the regulations regarding the use of public and private space that directly affect many informal operators and workers. Also, it is often at local level that the tendency is for power relationships and distributive practices to be very unbalanced. Central government agencies or the legislative authorities may be supportive of informal organizations, but unless there is consistency of policies and effective implementation at local level, these organizations may find themselves more unstable and weak. For example, an order by the Philippines Department of Labor and Employment to provide homeworkers with greater protection from abusive practices by subcontractors and intermediaries proved difficult to enforce because the Department's field offices considered its application outside the scope of their jurisdiction. In the United Republic of Tanzania, favourable credit policies for informal micro-entrepreneurs came up against the problem of city planning, which did not provide for any market or worksite for informal operators.[17]

Some local and municipal governments, acknowledging the significance of the informal economy in their localities, have tried to improve the enabling environment in terms of both physical infrastructure and services and providing local groups with avenues for voicing their concerns and priorities and taking part in policy debates. As the city of Durban in South Africa was developing its vision of a new urban policy and institutional framework, it found that one of the problems was that there were so many different departments and agencies, each dealing with different aspects of urban governance: health, security, infrastructure, traffic, development and planning, precinct management and small business support. None had much contact with the others, often resulting in the implementation of contradictory rules and regulations. The first step was to bring representatives of these official agencies together in the development of a new policy, to involve researchers and other committed agents of change in an advisory role, and to consult groups in the informal economy and their organizations

[16] ILO: *World Labour Report 1997-98*, op. cit., p. 210.

[17] ibid., p. 214.

on their needs and their own vision. A number of important elements in the process are worth highlighting:

> The first component was that the policy team, as well as senior politicians, had to come to an agreement early on about the *role and importance of the informal economy*: that it was an important job creator and contributor to the city's economy; that it was especially important to poor South Africans; that the formal and informal parts of the economy are closely linked together, and the health of one depends on the health of the other. There were three keys to forging this agreement. The first key was in agreeing to move away from the term 'informal sector'. ... The second key was to forge agreement that street traders (the most visible of informal workers) should be seen in the first instance as workers – not as survivalists, not as welfare cases needing social services, not as city invaders – but as workers, albeit with precarious and sometimes unsustainable enterprises. The third key was there had to be acceptance that informal work and workers are a permanent part of the city's life and economy.[18]

The inclusive policy for the informal economy of the Durban local councils (described in box 5.1) and of the Second National Labour Commission in India (described in box 3.1 in Chapter III) represents an important way forward: strengthening civil dialogue institutions and processes involving those in the informal economy and their organizations can be effective in promoting decent work along the entire continuum.

The role of trade unions

In the past, trade unions were sometimes blamed for not catering to the interests and needs of informal workers. However,

> it is important to properly frame the responsibilities of trade unions in the area of organizing the 'informal sector'. A common mistake begins by always thinking of trade unions as already established institutions and not as something that workers can bring into existence themselves through a process. Rights are to be guaranteed to workers, not trade unions ... it is too easy to sit back and place the responsibility for the conditions of unprotected workers on the doorsteps of trade unions. The central issue in organizing is the effective protection of the right of all workers to organize. It is up to workers themselves to decide whether they want to form their own trade unions or other organizations or join existing trade unions, but it is wrong and counterproductive to confuse the right of workers to organize with the obligation of trade unions to organize.[19]

It is also worth reminding ourselves that historically the trade union movement was built by unprotected workers who, through self-organization and solidarity, gained rights, benefits and social protection.

The trade union movement has recognized the significant challenge posed by the informal economy. In 1999, the ILO Bureau for Workers' Activities held an Interna-

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[18] M.A. Chen; R. Jhabvala; F. Lund: *Supporting workers in the informal economy: A policy framework*, background paper prepared for this report (Nov. 2001).

[19] International Confederation of Free Trade Unions (ICFTU): *Informal or unprotected work: Conclusions and Recommendations for the Task Force*, Informal Sector Meeting, Brussels, 15-16 Mar. 2001. This point also reflects the wording of the Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87), i.e. that workers and employers have the right to form and join organizations "of their own choosing".

Box 5.1. Durban Metropolitan Council: An inclusive policy for the informal economy

Recognizing the significant contribution of the informal economy to economic and social life, the City of Durban, South Africa, decided in 2000 to develop a comprehensive written policy for the informal economy with the following main features:

- the policy is pro-development – it dovetails with the economic development policy set by the city government,
- the policy process was widely consultative with all major stakeholders;
- it targets the poorest segments of the informal economy (street vendors and homeworkers);
- it combines area-based management with sector-based support to micro- and small enterprises;
- it promotes a coordinated approach among the various city departments dealing with informal economy issues;
- it seeks to promote complementarity and synergies between the formal and informal parts of the economy – including through dealing with formal and informal economy issues in the same institutional structures and processes;
- it integrates support for enterprise development with a supportive regulatory framework, environmental and occupational safety and health measures, promotion of safety and security through local action; and organization of informal actors.

The policy places emphasis on organizing informal actors because it recognizes that:

- the interests of the informal actors are best served when they can bargain from a position of strength and confidence;
- the interests of local government are best served when there are strong and stable partners to negotiate with.

The policy therefore provides for government assistance to:

- set up democratic organizations;
- run the organizations by supplying practical administrative resources;
- develop the organizations, through the assistance of service-provider organizations;
- establish a negotiating forum between the Council and representative organizations.

Source: Technical Task Team to develop an effective and inclusive policy for the informal economy for Durban's North and South Central Local Councils. *Draft policy documents* (July 2000).

tional Symposium on Trade Unions and the Informal Sector which brought together trade union representatives from developing and industrialized countries to discuss ways to organize and represent the interests of workers in the informal economy more effectively. In 2000, the 17th World Congress of the International Confederation of Free Trade Unions (ICFTU) mandated the establishment of a Task Force on Informal or Unprotected Work to develop stronger and more effective strategies to help vulnerable

workers help themselves and to respond to the deterioration of conditions and protection and informalization of the economy in the context of globalization. The World Confederation of Labour (WCL) has made the informal economy one of its action priorities for the years 1998-2002. The WCL perceives the informal economy as an opportunity, a risk and a challenge; it values the social role of the informal economy and sees in this a reason for respecting and improving it. By virtue of its action programme, "the WCL and its affiliates make the active commitment to organize the workers from the so-called informal sector, bearing in mind their specific needs and with a view to protecting collectively their interests and to claiming proper regulations".[20]

But while the informal economy has become a major priority with the international trade union movement, unions at national level still confront a number of issues and constraints in organizing informal workers, as described in the first section of this chapter and in box 5.2.

Box 5.2. Organizing informal economy workers: The challenges facing unions

- Informal economy workers do not represent a uniform group and may have obvious differences of interests among themselves;
- they may not share common interests with the bulk of current union members. Ethnic, family and kinship ties may be stronger among such workers than working class solidarity;
- they are often so caught up in the daily struggle for survival that they are not inclined to join in collective action, especially when they cannot see how such action or membership in a union can help them solve their practical problems and basic needs;
- the highly precarious nature of their work means that they are often too worried about losing their jobs to join a union;
- importantly, there are often legal barriers to trade union organizing in the informal economy;
- it may be hard for unions to contact and mobilize informal workers, especially home-based workers and those in micro-enterprises – organizing drives can be costly and difficult, as well as time- and resource-consuming;
- unions may find it hard to retain such workers as members because of the precarious nature of their employment, and would therefore have to consider whether it is an efficient use of their human and financial resources to try to organize such workers;
- many unions do not have tested strategies for organizing them;
- current union members may not see the rationale for organizing such workers and may object to the necessary changes in policies and resource allocation required to reach out to such workers. The challenge is for the unions to reach out to new groups without undermining their traditional support base.

Source: ILO: *Promoting gender equality: A resource kit for trade unions, Booklet 4: Organizing the unorganized: Informal economy and other unprotected workers* (Geneva, 2001). Web site: http://www.ilo.org/genprom/seo

[20] World Confederation of Labour: "Action programme", in *Labor Magazine*, 76th year, No. 1, 1998. http://www.cmi-wcl.org, under Publications: Labor magazine.

At national level, there are often legal or bureaucratic impediments to trade unions extending their mandate to groups where there is no evident employer-employee relationship. As explained in Chapter III, in the absence of an easily identifiable employer, as in the case of homeworkers for example, it is hard to demonstrate that workers are in an employment relationship and, as "employees", are entitled to labour protection and to bargain collectively. Furthermore, in many countries the law provides a framework for unions to organize at the plant level only, which is of course a major constraint when it comes to informal workers. In others, unions cannot organize the self-employed.

> Organizing does not mean just recruiting new members in the workplace and providing them with services. It is equally about connecting with current members, potential members and other groups in society who share less and less a commonality of interests in order to build a strong social movement. Organizing therefore means that unions need to refocus on workers, regardless of their employment status or link to a particular workplace.[21]

To organize informal economy workers as part of the existing union membership, trade unions have tested and adopted a number of strategies.[22]

Often, such organizing implies changing the way unions operate. Unions may have to review and, where necessary, revise their internal regulations and statutes to remove limitations to their ability to organize informal workers. Such amendments would relate, for example, to the right to membership, participation in negotiation teams, inclusion in collective agreements and membership dues. In many cases, unions also have to make provision for special services for informal workers – not only social services such as medical insurance or health benefits, but also assistance in regularizing their employment status or dealing with government authorities, for instance for obtaining marketplaces, subsidies and so on. Some unions have created special structures, including specific departments or units with their own budget allocations, to organize and represent informal workers more effectively. Unions in Benin have established secretariats for the informal economy. The Confederation of Workers of Colombia has a secretariat for self-employed workers. Four informal economy associations are fully represented in the structures of the Timber and Woodworkers Union in Ghana and their needs are serviced by full-time officials. Unions in Ecuador and Panama have established departments for rural and indigenous workers. Some unions have established different rates of membership dues or have waived their payment for a "grace period" to accommodate low-income informal workers.

Recruitment strategies to reach workers in informal activities have to be innovative, particularly when access to the workplace is denied or the workplace is unknown or hard to locate. "Shop-floor" organizing methods are less effective, so many unions build bridges between the union and informal workers by making use of former and current members. Since a major difficulty of organizing informal workers is the often

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[21] ILO: *Trade unions and the informal sector*, op. cit., p. 45.

[22] See idem: *Conclusions and recommendations*, International Symposium on Trade Unions and the Informal Sector, Geneva, 18-22 October 1999 (TUIS/1999/1); idem: *Beyond survival – Organizing the informal economy* (Geneva, undated); idem: *Promoting gender equality: A resource kit for trade unions, Booklet 4: Organizing the unorganized: Informal economy and other unprotected workers* (Geneva, 2001).

transient nature of their work, unions keep track of previous union members who have been forced out of the formal economy. They can assist in organizing, as they know others who share the same circumstances. Current members can also be effective in publicizing union policies and activities to relatives and friends in the informal economy. Often, the women's department in trade unions can play a key role in reaching out to women in the informal economy. Of course, to reach out to new groups without undermining their traditional support base, internal support is a prerequisite. Unions need to ensure that their current membership fully understands and supports the move, especially since this will involve changes in resource allocation.

More and more unions are establishing mechanisms to systematically track contracting-out processes and the flow of work along a commodity chain from the point of sale of the final product up to the most basic unit of production. They are negotiating with employers and the State concerning access to information about the location of workers and details of subcontracting arrangements. Such information enables unions to identify potential members who are disguised wage workers in home-based work and subcontracting arrangements and at the same time to determine the real employer – the lead firm that has outsourced production, which may even be a retail firm in another country – who should ultimately bear responsibility for the rights and protection of all the workers in the chain. Where global commodity chains are involved, international trade union networking is especially important, as discussed below.

Unions need innovative strategies to reach informal workers, who are generally "invisible", scattered and difficult to contact and often have low levels of education. Even when they have identified and contacted them, trade unions face the challenge of making them aware both of their rights as workers and of the benefits of unionization. Awareness-raising campaigns are especially important where informal workers remain unaware or wary of the aims of unions. In the Ask a Working Woman Survey conducted by the ICFTU Women's Committee in 2000, 72 per cent of the non-unionized women said that the most important reason why they did not join unions was because they did not understand how unions could help them. Experience has shown that radio or television programmes and street theatres may be more effective than print media to transmit information to workers, especially women, in the informal economy. And such information should focus not only on workers' legal rights but on how unions are improving services or adopting policies that benefit workers in the informal economy. Publicity should not be only for organizing purposes but also for gaining support from the general public. In this regard, union relations with the media are very important. In an ILO/ICFTU survey of over 300 unions conducted in 1998-99, less than one-fifth felt that the media were supportive of them; the media either ignore them or portray them negatively to the general public.[23]

Special attention also needs to be given to women and youth in the informal economy. Young people want to join modern trade unions which use fresh and creative ideas to attract them, train them to be leaders and include them in decision-making. Women need family-friendly measures, such as meetings scheduled to suit their heavy and uncertain work demands and arranging informal childcare. Women need also to see that unions are truly practising gender equality.

[23] ILO: *The role of trade unions in promoting gender equality and protecting vulnerable women workers* (Geneva, 1999).

Many unions have developed special services as a tool to address the immediate economic and social needs of workers in the informal economy and also as an organizing strategy (see box 5.3). Examples include providing medical insurance, savings and loan schemes, educational and training programmes, health and nutrition programmes, and assistance for dealing with bureaucracy, for instance in obtaining marketplaces or licenses. It is important, however, that "these services should not be regarded as a substitute for collective bargaining nor as a way to absolve governments from their responsibilities. Rather, they should be seen as a complementary organizing activity".[24] In other words, at the same time as actually providing these special services, unions should still give priority to lobbying governments to adopt national policies to make such services available and to promote and protect the rights of informal workers.

Box 5.3. Unions providing special services to informal workers

In the *Netherlands*, the Women's Union set up independent home-work support centres (HSCs) to provide advice and support services to homeworkers and, through their contacts, collect information and develop policy about home work. The HSCs were funded by the national Government but liaised with relevant trade unions in order to build contacts between homeworkers, the organized workforce within the factory and the relevant trade unions, and to persuade the unions to adapt some of their practices to encourage homeworkers to join, for example by introducing some flexibility in membership dues.

Source: M.H. Martens and S. Mitter (eds.): *Women in trade unions: Organizing the unorganized* (Geneva, ILO, 1994), pp. 83-88, cited in ILO: *Promoting gender equality*, op. cit.

The National Union of Domestic Employees (NUDE) of *Trinidad and Tobago* received extensive media coverage of its efforts to draw attention to the low income of domestic workers. NUDE called for enforcement of the Minimum Wage Order, in which domestic workers were the lowest paid, and also for their inclusion in the national insurance scheme. The publicity NUDE received in the media led to an increase in membership.

Source: G. Pargass: *Desk review: Domestic workers in the Caribbean* (Port-of-Spain, ILO, 1997), cited ibid.

The National Organization of Free Trade Unions (ONSL) in *Burkina Faso* created an integrated development centre in Ouagadougou, which offers women market traders engaged in weaving, dressmaking, embroidery, knitting and soap production the chance to join forces and to have better working conditions. The centre also provides literacy, hygiene and nutrition courses which have enabled the women to keep health records of their children. It also runs training courses in basic accounting and administration. As a result of these activities, the women organized themselves, formed a cooperative and joined ONSL.

Source: ICFTU: *Claiming our rights: Women and trade unions*, http://www.icftu.org, cited ibid.

[24] ILO: *Trade unions and the informal sector*, op. cit., pp. 58-59.

Some unions have also made efforts to include atypical and informal workers in collective agreements. One approach is to extend collective agreements to cover these workers, so as to overcome some of their disadvantages, such as exclusion from statutory benefits. For example, the Textile, Clothing and Footwear Union of Australia (TCFUA) fought for a national legal agreement that laid down minimum wage and working conditions for homeworkers.[25] To extend collective agreements, unions may also need to address the legislative hurdles to such extensions. The second approach is to bargain for the regularization of the employment status of informal workers, so as to bring them closer to the core union members. For example, the Zimbabwe Textile Workers' Union has negotiated for contract workers to become regular employees after renewing their contract more than three times over 12 months or after serving a contractor for 12 months. Another approach is to help informal workers to establish their own agreements.

Trade unions have also been assisting informal workers in establishing their own union-type, membership-based associations. The ILO/ICFTU survey conducted in 1998-99 found that almost one-fifth of the unions surveyed had not targeted any "atypical" workers, including informal workers, in their organizing efforts. Most of these respondents preferred to help informal workers set up their own organizations and establish alliances with them rather than to organize them as members.[26] The issues that arise, then, are what types of assistance can established trade unions offer, what types of organizations should they encourage, and what type of relations should be developed.

In a number of cases, informal workers are already organizing themselves into new unions, cooperatives or other membership-based associations. Established unions can provide guidance, training and other support to enhance the capacity of informal workers and their associations to develop organizational structures and management that would help them to become effective and democratic institutions. They can also train organizations of informal workers on ways to promote social dialogue and engage in other democratic union-type activities in pursuit of their members' interests. Other types of assistance can include institutional support, such as acting as an intermediary with public authorities or financial institutions, and setting up programmes and schemes, including cooperatives, that are useful to informal workers. An especially important role of established unions would be to lobby on behalf of these informal organizations and help them to achieve recognition, bargaining power and legal protection. As pointed out above, organizations of informal workers often remain unrecognized by those with whom they need to dialogue.

As regards the question of the type of organization of informal workers that trade unions should support, a key consideration is representation and accountability. A clear distinction needs to be made between organizations that derive their legitimacy from the membership they represent and can therefore legitimately speak in the name

[25] However, the agreement was rarely honoured. A study published by the TCFUA in 1995, entitled *The hidden cost of fashion*, documented how homeworkers (mostly immigrant women) were paid less than the minimum wage and received no benefits. This led to a year-long campaign by the union and other civil groups to expose companies whose brand-name clothing was being made under exploitative conditions. Because the campaign had high-profile media exposure and involved workers from all over the country, it was able to pressure most companies in the clothing industry to subscribe to the national agreement or code of conduct. Currently, a legal unit within the TCFUA monitors compliance and takes infringement cases to court.

[26] ILO: *The role of trade unions in promoting gender equality*, op. cit.

of the informal workers, and those organizations which, while instrumental in advancing the cause of informal workers, cannot speak on their behalf; in other words, between the roles of representation (the former) and advocacy (the latter).

Alliances or partnerships between unions and other membership-based organizations that are founded on clear recognition and capitalization of the comparative advantages of each party and that are respectful of the autonomy of all actors involved can bring distinct benefits, including extending union influence and even eventually enlarging membership. At least three types of alliances are important – "community unionism", international alliances and alliances between unions and cooperatives.

Community unionism, which has been increasingly practised in the United States and Canada, refers to the alliances between unions and community organizations in pursuit of common community goals. In community-based organizing in the neighbourhoods and areas where informal workers live, unions act in close cooperation with community organizations which have contacts with these workers. The community organizations can be advocacy groups such as civil rights and minority rights groups, environmental groups, religious organizations, women's groups, organizations providing training or assistance to jobseekers, and self-help groups of informal workers. Unions are increasingly recognizing the need for strong partnerships between labour and the community, whether around organizing drives, pushing for improved community facilities and services, mobilizing against social programme cuts or fighting discrimination or racism at the community level.

Union members are not just workers, but also community members, consumers and members of religious and political groups. Important worker concerns such as childcare facilities, education and training, health and social security cannot be resolved solely at the workplace. On these issues, union members share a commonality of interests with informal workers who are also community members. Local community alliances can therefore be effective in building a sense of solidarity among unionized and informal workers around common community goals. Besides raising the credibility and presence of unions in a community, a significant advantage of community unionism is that it can transform unions into a social movement of working people, regardless of where they are working or what their employment status is.[27] Local community alliances can be particularly important in helping unions attract and retain female members. Because the lives of many women are so closely grounded in their families and communities, they have long been key proponents of a wider trade union agenda which includes such matters as the quality of community life. Women's groups may make excellent partners for trade unions at the local community level and for reaching out to those in the informal economy.

More recently, the social partners have also found that community unionism is an effective way of disseminating information and providing services relating to HIV/AIDS. In the countries with the highest levels of infection, most workers are to be found in the informal economy and thus are not easily reached via the traditional formal economy routes.

Community unionism has also been effective in the United States for organizing immigrant workers, in particular those who have been exploited as homeworkers,

[27] "Community unionism is a viable way not only to expand our union membership base, but also to build solidarity across communities and differences". Canadian Labour Congress: *Women's work: A report* (1997), p. 111.

home-care providers and sweatshop workers. For example, unions have been active in a Workplace Project[28] in Long Island, New York, to address the problems of undocumented Latino workers through the provision of legal advice and services, combined with labour and community organizing. Despite the two-tier labour system of legal and illegal workers created by the Immigration Reform and Control Act (IRCA) of 1986, the project was able to use the provisions of the Fair Labor Standards Act and the National Labor Relations Act to help migrant workers claim their rights to legal protection under labour laws. Together with a broad coalition of business, labour, religious and community groups, as well as two other workers' centres, the Latino Workers' Center and the Chinese Staff and Workers' Association, the Workplace Project also spearheaded the passing of the Unpaid Wages Prohibition Act in 1997, giving New York the strongest wage enforcement law in the country.[29]

Trade union alliances in support of informal economy workers have been assuming international dimensions. Especially in the context of global production chains and the growth of subcontracting arrangements, unions have been finding that national strategies alone are often not effective. For example, it is very difficult for workers in one country to take legal action against a multinational corporation that has its headquarters in another country. But recently, trade unions, consumer groups and human rights groups have joined together in litigation against multinational companies that abuse fundamental workers' rights, and have benefited from important legal rulings where courts in a company's home country have accepted that the company is legally responsible for employment conditions in its operations overseas.[30] The ICFTU has also joined other groups working on corporate accountability, such as Labour behind the Label,[31] to advocate the use of the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy as the basis for a corporate code of conduct. There are also a growing number of international or regional framework agreements concluded by the International Trade Secretariats (ITSs) with large multinational corporations, which seek to ensure that these corporations accord fair labour standards in all countries of operation[32] (see box 5.4).

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[28] J. Gordon, "We make the road by walking: Immigrant workers, the Workplace Project and the struggle for social change", in *Harvard Civil Rights – Civil Liberties Law Review* (Cambridge, Massachusetts), Vol. 30, 1995.

[29] idem: *The campaign for the Unpaid Wages Prohibition Act: Latino immigrants change New York wage law*, Carnegie Endowment Working Papers No. 4 (Washington, DC, Carnegie Endowment for International Peace, Sep. 1999), pp. 7-8.

[30] See, for example, http://www.sweatshopwatch.org/swatch/marianas/lawsuit.html for the class action suits brought by the Union of Needletrades Industrial and Textile Employees (UNITE) and some NGOs against manufacturers and retailers in the United States for mistreatment of workers on the Pacific island of Saipan, which is under United States sovereignty.

[31] The Labour behind the Label network involves development cooperation organizations, local support groups, trade unions and alternative trading organizations working to improve labour conditions in the international garment industry. The Clean Clothes Campaign is a member of this network. The aim of the network is to encourage retailers to adopt codes of conduct respecting ILO core Conventions, accept independent verification of how codes are put into practice and make information available to consumers to facilitate better informed choices. See http://www.labourbehindthelabel.org

[32] Examples of framework agreements include the International Federation of Building and Wood Workers (IFBWW) with IKEA; the International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers' Associations (IUF) with the Danone Group and the Nestlé Group; and the ICFTU with the International Federation of Association Football (FIFA).

Box 5.4. Framework agreements to protect workers' rights

Negotiations between the International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers' Associations (IUF) and the Danone Group led in 1988 to a formal joint undertaking. The IUF and Danone management agreed to work together and to commit themselves to promoting four areas of concern to all companies in the group:

- a training policy which allows employees to anticipate the effects of the introduction of new technologies or of industrial restructuring;
- the transmission to unions and to representatives of Danone of information adequate for the purpose of reducing the existing disparities between one country and another or between one company and another in the group because of different legislative or contractual obligations;
- equality between women and men in the companies of the Danone group, both in salaries and in working conditions and respect of their equality of opportunity or chances for promotion. Formulation of an action plan and joint initiatives to achieve this goal;
- implementation of trade union rights that take into account issues of the exercise of union rights in different countries and of access to union training.

Recommendations and guidelines were elaborated in each of these four areas at the international level and taken back to the national level and to each company in the Danone group. Since 1988, union and management representatives of Danone meet each year. The practice of regular meetings for information and consultation was formalized by a written agreement in 1996, which covers all the operations of Danone within the countries of Europe and includes the presence of representatives of unions from other regions of the world.

Source: ILO: *Promoting gender equality: A resource kit for trade unions, Booklet 6: Alliances and solidarity to promote women workers' rights* (Geneva, 2001). Web site: http://www.ilo.org/genprom/eeo

The role of employers' organizations

In their representative role, employers' organizations have been covering mainly the larger formal economy enterprises. Most employers' organizations do not represent the owners of activities in the informal economy. In some ways, the problems of organizing informal operators are similar to the problems employers' organizations face in organizing small enterprises in the formal economy. But employers' organizations increasingly recognize that they cannot effectively promote and protect the interests of the formal economy without enlarging their scope of action to cover informal entrepreneurs and potential entrepreneurs. For example, a Southern African Development Community (SADC) Employers' Workshop on Challenges facing Employers' Organizations in the 21st Century held in July 2001 called on employers' organizations urgently to address the problems of the informal economy, noting that often employers in the informal economy together employ more people than those in the formal economy.

More and more employers are concerned with supporting all parts of the continuum of formal-informal economy linkages. On the one hand, the development of production chains means that there is a symbiotic relationship between large and small enterprises and that the effectiveness of inter-firm linkages and timely delivery systems increasingly determine competitiveness. Also, it is in the interests of everyone, not least the employers in the formal economy, that productivity and purchasing power increase in the informal economy so that it can become a more important market for the goods produced by the formal economy and at the same time a more efficient source of a broader range of high-quality inputs required by formal enterprises.

> There is a sound rationale for employers' organizations to be involved in informal economy issues. They are potential members, if they can be helped to develop in an environment which does not constrain their growth. They would cease to be unfair competitors if they can be assisted to enter the formal economy. Many of the barriers that constrain the informals also adversely affect employers in the formal economy. Employers' organizations should consider helping associations in the informal economy to develop a lobbying agenda, develop business support and other relevant services, helping to link micro-enterprises with enterprises in the formal economy and facilitating access to market needs.[33]

The challenges employers' organizations face in reaching out to those in the informal economy are as serious as those confronting trade unions. Owners of micro- and small enterprises in the informal economy are often not registered and their legal status is uncertain, if they are not "illegal". The problems with which they need assistance are different from those of large formal enterprises. They need relevant services at an affordable cost, but often they cannot pay fees, and employers' organizations have to provide services to their fee-paying members.

Recognizing that often it is initially not practical for individual informal units to become members, some employers' organizations have encouraged such units to form their own associations, which could become members later on. In fact, micro- and small entrepreneurs have long been organizing themselves. In Central America, for instance, organization has been a key element in supporting the spirit of entrepreneurship among small-scale operators.[34] Associations of micro- and small entrepreneurs and employers have also been increasingly coming together for joint action. The Committee of Central American Micro-Entrepreneurs (COCEMI), a non-profit regional organization comprising seven national committees representing a wide variety of trades, works through recognition at the regional level to help upgrade the bargaining power of its affiliates at national level. COCEMI has set up a system to help member associations take informed decisions by having access to reliable, up-to-date and complete information on market performance and has also served as a conduit of technical and financial assistance to its national member associations (see box 6.4 in Chapter VI). In Benin, some 1,600 micro-enterprises in a range of trades and employing some 6,500 people have organized into about 60 mutual savings and loan associations. These associations have combined traditional solidarity-based saving and credit practices with economic effectiveness. They have not only succeeded in increasing capital formation but have also improved their bargaining position vis-à-vis local au-

[33] S. de Silva: *The informal economy: Issues and challenges*, unpublished paper, Nov. 2001.

[34] The ILO's PROMICRO programme has been helping micro-entrepreneurs in the informal economy to organize as a means of opening up decent economic opportunities and amplifying their voice.

thorities. In China, informal enterprises have their own association, which is affiliated to the China Confederation of Employers.

Employers' organizations can assist these associations of informal entrepreneurs in a number of ways: developing a lobbying agenda specially geared to the needs of micro- and small enterprises; providing business support (developing business plans, project formulation, access to credit) and other relevant services (personnel management, productivity improvement, basic management skills, accounting and entrepreneurship training programmes); helping to link micro-enterprises with the formal economy; providing a range of information which micro- and small enterprises may find difficult to obtain, for instance on laws and regulations, market opportunities and facilitating access to markets. In a number of African countries, such as Kenya (see box 5.5), Nigeria and Uganda, employers' associations have helped informal operators to start up and develop businesses. In transition as well as developing countries, employers' organizations have been providing important assistance to "new" employers after privatization and structural reforms and advising them on means to enhance productivity and competitiveness. In Mongolia and Viet Nam, the employers' organizations have been closely involved in the implementation of the ILO's Start and Improve Your Business (SIYB) and Work Improvements in Small Enterprises (WISE) programmes. In Mongolia, the membership of the employers' organization is mainly small and consists of micro-enterprises. Part of its attractiveness to members is its ability to arrange for credit with a bank. Some employers' organizations have established information resources, for example on government laws and regulations and market opportunities on the Internet, which can be valuable to operators in the informal economy, who need a range of information which they would otherwise find it difficult to obtain.

One important point is that employers' organizations need not provide these various services directly to informal operators. A useful strategy, especially in view of the constraints they themselves face, is for employers' organizations to lobby for the creation of institutes, such as entrepreneurship development institutes, which can be the conduit for service delivery to the informal economy. Employers' organizations could also work in partnership with informal entrepreneurs' associations to deliver these services to the informal economy. They could also collaborate with other business associations to set up legislative advisory services – for example, to provide expert advice on the impact of proposed or existing laws or on what laws should be changed or enacted to reduce transaction costs – which could help the business community as a whole to improve the enabling environment for conducting business and remove barriers to entry into the formal economy.

In discussing how employers' organizations can meet these challenges to reach out to the informal economy, it is worth noting the various innovative forms of social entrepreneurship, alternative trade (sometimes known as "social marketing") and corporate social responsibility that involve organizing by micro- and small entrepreneurs.

From Poland to Thailand to Brazil to the United States, social entrepreneurs are helping small producers to compete in the global economy by combining the latest business tactics and strategies with tried and true methods of cooperative organizing. "While a business entrepreneur may thrive on competition and profit, a social entrepreneur has a different motivation: a commitment to leading through inclusiveness of all actors in society and a dedication to changing the systems and patterns of soci-

Box 5.5. Assisting micro- and small enterprises: Federation of Kenya Employers

The Federation of Kenya Employers (FKE) became involved in micro (informal) and small-scale activities in 1991, when it realized that formal employment was falling and informal employment was growing. Between 1985 and 1999, the share of formal employment in total employment dropped from 42 to 19 per cent, while the share of informal employment increased from 17 to some 67 per cent.

Since 1991, the FKE has implemented several programmes and services aimed at improving the situation of micro- and small enterprises and at creating employment with remunerative and sustainable potential. These included sector-based interventions in food processing, metal fabrication and machining, and construction, in which 780 entrepreneurs received training; study tours to India; establishment of business service centres; and the promotion of business start-ups in dairying, baking, school hot-lunch catering and food kiosks and restaurants. A strategic review carried out recently identified the following lessons learnt from ten years of experience:

- small and informal enterprises have the potential to create sustainable jobs and employment;
- the informal economy can be a vehicle towards industrialization, but strategies are required to address the needs of those enterprises with a potential to grow vertically;
- sector-based interventions appear to yield more effective results than a generic approach;
- employers' organizations can become strategic partners in policy advocacy for micro- and small enterprises, but such policies should be well researched and proper communication mechanisms put in place;
- business development services require continuous needs assessment if they are to have a meaningful impact;
- the informal economy will continue to be marginalized if there are no coherent and explicit pro-business regulations. There is a need, therefore, for employers' organizations working with informal operators to recommend appropriate strategies. This will imply employers' organizations having informal economy associations as affiliates;
- development partners are willing to collaborate with employers' organizations only when such organizations are focused, transparent and prudent enough in the manner in which they implement programmes;
- viable networking arrangements are crucial if employers' organizations are to create any significant impact through informal economy development programmes. These arrangements should be nationally and regionally based.

Source: C.O. Nyengute: *Federation of Kenya Employers: Case study*, background paper prepared for this report (Nov. 2001).

ety."[35] By bringing social entrepreneurship initiatives such as that highlighted in box 5.6 into mainstream policy, entrepreneurs in the formal economy can help small producers make the transition to formality and sustainable competitiveness in the global economy.

Alternative trading organizations (ATOs) are also bringing together producers of mainly handicrafts and food products from developing countries with buyers and consumers in advanced countries, so as to create an alternative way of doing business that is beneficial and fair (also known as social marketing). ATOs work primarily with small businesses and operator-owned and democratically run cooperatives and associations which bring significant benefits to the members and their communities. The basic idea is to bypass exploitative intermediaries and work directly with producers, so as to be able

Box 5.6. Social entrepreneurs organizing in the informal economy

If small producers and traders – the "Davids" of the economic landscape – are to thrive, they must overcome obstacles and become efficient producers. Doing so means that small producers need to create new structures to support their activities, structures that in many cases will allow them to mimic the "Goliaths" of the business world, whether in setting up cooperative markets or in joining forces with other producers to lobby government for favourable regulatory treatment. Helping small producers compete more effectively is exactly what Ashoka Fellows are doing. One of these social entrepreneurs, Rosana Tositrakul, has been the driving force behind the operations of the Thai Holistic Health Foundation. Initially, the Foundation focused on reviving the use of traditional herbal medicines by rural villagers. When Tositrakul realized that the farmers needed not only to reduce their medical bills through growing their own herbs but also to gain other economic benefits, she helped set up Friends of Nature as the business offshoot of the Foundation. Part retailer, part wholesaler, part producer, Friends of Nature has grown from a tiny health food store to a successful and entirely self-sufficient small company. Encouraged by their successes with the herb gardens and a traditional health centre, the member-farmers of Friends of Nature extended their economic activities to non-chemical farming of rice and taking control of the mainstay of their livelihood: rice milling. Business friends of the Foundation taught the farmers accounting and marketing skills. By 1999, some 1,100 farm families belonged to a cooperative that operates two rice mills. The mills were the first to produce brown rice, which was sold initially through Friends of Nature but now throughout Bangkok. They were also the first to export organic jasmine rice to Europe.

Source: J. Gampell: "Herbal remedies for social wellbeing", in *Changemakers Journal*, Feb. 2000, http://www.changemakers.net/journal/00february/gampell.cfm See also http://www.ashoka.org

[35] Ashoka Fellows in India, April 2000. See http://www.ashoka.org for the group that pioneered the concept of "social entrepreneur" two decades ago, and for a description of leading social entrepreneurs in a wide range of countries. See also *Changemakers Journal* for articles on social entrepreneurship, at http://www.changemakers.net/journal

to cut costs and return a greater percentage of the retail price to the producers. The ATOs also work on consumer choice, appealing to ethical consumer markets, particularly in advanced countries, rather than relying on the intervention of the State (see box 5.7).

There are also a whole range of corporate social responsibility initiatives by individual companies and employers' organizations which involve new partnerships and new spheres for existing relationships with the informal economy. The International Organisation of Employers (IOE) has been an active supporter of the United Nations Secretary-General's Global Compact and has urged all employers' organizations to embrace it.[36] Corporate social responsibility measures include voluntary private initiatives, framework agreements, good practice standards such as ISO 14000,[37] adoption of codes of conduct and stakeholder accountability.[38] The partnerships are between business and civil society organizations, government and international organizations.

Box 5.7. Informal economy producers organizing for alternative trade

The International Federation for Alternative Trade (IFAT) is a global network of over 160 fair trade organizations in more than 50 countries. Members include: alternative trading organizations (ATOs) helping disadvantaged producers towards equity in trading relationships; handicraft and agricultural production groups in developing countries; and non-trading organizations, such as education and advocacy groups, which share its goals. The ATOs located in industrialized countries market a wide range of handcrafted products and foodstuffs through retail stores, mail order catalogues, church bazaars and home enterprises. The ATOs in developing countries work with producer groups to guarantee that producers receive fair prices and to find markets for their products. The producer organizations are based in African, Asian and Latin American countries; many work with disadvantaged people who are vulnerable to exploitation, including single women heads of households, displaced people, seasonal agricultural workers and slum dwellers.

Source: http://www.ifat.org

The Fair Trade Federation (FTF) is an association of fair trade wholesalers, retailers and producers that directly links low-income producers with consumer markets and educates consumers about the importance of purchasing fairly traded products which support living wages and safe and healthy conditions for workers in the developing world. FTF also acts as a clearing house for information on fair trade and provides resources and networking opportunities for its members. By adhering to social criteria and environmental principles, fair trade organizations foster a more equitable and sustainable system of production and trade that benefits people and their communities.

Source: http://www.fairtradefederation.com

[36] See http://www.unglobalcompact.org for details on the Global Compact.

[37] The set of standards on environmental management established by the International Organization for Standardization.

[38] For a description of these various forms of corporate responsibility, see P. Utting: *Business responsibility for sustainable development*, Occasional paper 2 (Geneva, United Nations Research Institute for Social Development, 2000).

Some of these initiatives clearly have the potential to promote a set of core values covering labour, environment and human rights and also to support entrepreneurship and the formalization of informal enterprises. However, what still needs to be determined is whether and which types of corporate responsibility initiatives strengthen representation and the voice of those in the informal economy and promote social dialogue, and then, of course, what can be done to ensure these results. Assessments have indicated, for example, that some forms of voluntary initiatives and partnerships between business and other social actors may in fact weaken the key drivers of corporate responsibility – namely government regulation, the role of trade unions and collective bargaining, and certain forms of civil society activism. There is also concern that certain partnerships may be very unequal, resulting in corporate interests coming to dominate or heavily influence the decision-making processes of public interest institutions.[39] To scale up and enhance corporate social responsibility, a European Commission Green Paper[40] suggests an approach based on the deepening of partnerships in which all actors – which can include large and small enterprises in both the formal and informal economies, trade unions, environmentalists, consumer groups, social interest NGOs – have clearly defined and active roles to play.

The role of cooperatives

Where there are major constraints to informal operators or workers joining existing employers' organizations or trade unions or establishing their own organizations, the most effective membership-based organizational structure may be that of a cooperative. Cooperatives are jointly owned and democratically managed and carry out economic activities that support the economic units of their members, which could include either entrepreneurs or workers in the informal economy. Organizing in cooperatives could also be seen as one step on the path towards formalization. Many cooperatives start as informal group enterprises and later, as they grow and become viable business enterprises, are registered. As legal entities, they become part of the formal economy.

The Report of the Director-General to the 78th Session of the Conference in 1991 emphasized that cooperatives have a significant role to play in the informal economy since

> the small informal organizations within the informal sector are essentially 'pre-cooperative' in nature and based on the very principles and traditions that characterize a genuine cooperative movement – the active participation of their members, democratic management and control of their activities, and an equitable distribution of benefits among their members.[41]

However, the Report made an important distinction between the informal cooperatives or unregistered "pre-cooperatives", which show great vibrancy and potential

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[39] ibid., p. 32.

[40] Commission of the European Communities: *Green Paper: Promoting a European framework for corporate social responsibility* (Brussels, 18 July 2001), COM(2001) 366 final.

[41] ILO: *The dilemma of the informal sector*, Report of the Director-General, International Labour Conference, 78th Session, Geneva, 1991, p. 46.

for the growth of genuine membership-based organizations, and the formal cooperative movement, which

> has been unable to play a more dynamic role in the development of the informal sector ... the potential benefits that could be obtained by associating the informal organizations that already exist, or that could be encouraged to exist, with a genuinely recognized, cooperative movement are obvious. It would enable such organizations and their members to have better access to the credit, markets, technology, legal and other institutions of the modern sector, and thus become a powerful force for breaking down the barriers that separate the two sectors.[42]

The promotion of cooperatives was discussed at the 89th Session of the Conference in 2001[43] and the discussion is continuing this year with a view to the revision of the Co-operatives (Developing Countries) Recommendation, 1966 (No. 127). Therefore, it may be opportune to discuss the role of cooperatives, including vis-à-vis unions, in the informal economy.

The "formal" cooperative movement has not developed specific strategies for dealing with the informal economy – mainly because "the boundaries between formal and informal are not as important to organizations that are used to dealing in the market economy as a whole"[44] and because the formal cooperative movement itself has been undergoing restructuring and retrenchment under the impact of structural adjustment and the progressive withdrawal of government involvement in many countries. But there are many striking examples of successful cooperative *methods* for organizing and providing services to those in the informal economy. Workers' cooperatives, which are also known as production cooperatives, have been particularly successful in organizing the self-employed involved in activities that lend themselves to joint action, such as catering and restaurants, quarrying and stone cutting, candle-making and garment manufacture. Craft workers such as tailors, silversmiths, woodcarvers and furniture makers tend to benefit from a looser form of cooperative in which they work as individuals and are credited with the value of the items they make, while the cooperative organizes raw materials, machinery, workshops and markets. Credit cooperatives and consumer cooperatives, especially when organized by trade unions, have often succeeded in having an immediate impact on the livelihood of people in the informal economy. But it is particularly in the field of social protection and social services that cooperatives have had significant success and perhaps been the easiest to organize. There are now many informal self-help groups that provide their own social insurance cover through cooperative methods[45] (see also box 4.2 in Chapter IV). For example, in the United Republic of Tanzania the Mwanayamala Cooperative in Dar es Salaam organizes around 1,000 market vendors who pay a small daily rate to rent stands, which also goes towards providing death and hospital benefits. In India, the

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[42] ibid., pp. 46-47.

[43] See ILO: *Promotion of cooperatives*, Report V (1), International Labour Conference, 89th Session, Geneva, 2001.

[44] J. Birchall: *Organizing workers in the informal sector: A strategy for trade union-cooperative action*, COOP Working paper 01-1 (Geneva, ILO, 2001), p. viii.

[45] See, for example, W. van Ginneken: *Social security for the informal sector: Issues, options and tasks ahead*, Interdepartmental Project on the Urban Informal Sector Working Paper (IDP INF./WP-2 (Geneva, ILO, 1996).

integrated insurance scheme of the Self-Employed Women's Association (SEWA) is one of the largest contributory social security schemes in the country for informal workers, offering insurance coverage to some 32,000 women workers (see box 4.2). In San Salvador, vendors of the central municipal market have a credit scheme for a health fund.

The advantages of cooperatives in the informal economy are that they

> can provide individuals with the same benefits that larger institutions afford. For rice producers in central Thailand, cooperation allows them to produce organic rice in quantities large enough to make export to Europe economically feasible. For washerwomen in Brazil, joining forces with their colleagues provides them better working conditions, job security and benefits (for example, access to credit) that are characteristic of salaried workers. Cooperative action can also yield political clout. The Thai Holistic Health Foundation's lobbying against restrictions on natural products would not have been as effective if it had not represented a substantial community of producers, distributers and retailers.[46]

Many trade unions have used cooperative methods not only to meet the immediate economic and social needs of their members but also as an organizing technique. In Singapore, for example, the National Trades Union Congress (NTUC) has promoted a workers' cooperative among self-employed taxi and minibus drivers. In Benin, the cement workers' union, SYNTRACIB, works with women in rural areas and through a women's association has organized women in some 33 villages into cooperatives, including providing training seminars to develop income-generating skills and organizing markets. The Trade Union Congress of the Philippines (TUCP) initiated LEADCO (Labor Education for Assistance and Development) as a cooperative for families living in a depressed coastal community. It started as a loan assistance programme and then converted into a multipurpose cooperative providing savings, loans, training, enrolment in the social security programme, a home-financing agency, a TUCP insurance programme, marketing of members' products and bulk buying of prime commodities for its mainly self-employed members.

Both the trade union and cooperative movements recognize that they each bring to the informal economy a set of strengths that are wide ranging and complementary and that there is therefore considerable potential for collaboration.[47]

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[46] D. Brown: "After WTO: Creating jobs for the next millennium", in *Changemakers Journal*, Feb. 2000, http://www.changemakers.net/journal

[47] However, both sides recognize that there is still much to be sorted out if they are to have joint strategies at international and national levels to reduce decent work deficits in the informal economy.

CHAPTER VI

MEETING THE GLOBAL DEMAND FOR DECENT EMPLOYMENT

THE GLOBAL EMPLOYMENT DEFICIT

To understand why the informal economy has been growing – and will most likely continue growing – we only need to look at the global employment scenario:[1]

- open unemployment in the world is about 160 million, of whom some 53 million live in industrialized and transition economies. An additional 310 million do not have enough work;
- it is currently estimated that there are some 530 million "working poor" earning less than enough to generate a family income of US$1 per day per capita to support the rest of the 1.2 billion who are living below the poverty line;[2]
- in recent years, the global economy has been creating about 40 million jobs a year, whereas there are 48 million new jobseekers annually;
- over the next decade, the world's labour force is projected to increase by 500 million workers, 97 per cent of whom will be in developing countries.

Given this scenario, in which some 1 billion men and women will have to be integrated into employment in the next ten years, it is hardly surprising that there has been growing interest in the employment creation potential of the informal economy. Most job creation in recent years, especially in developing and transition economies, has in fact been in the informal economy. Most people go into the informal economy because they cannot find jobs in the formal economy and cannot afford to be openly unemployed. The dilemma is that jobs in the informal economy are seriously deficient in terms of workers' rights, proper working conditions, legal and social protection, representation and voice, and are not comparable to protected and decent jobs in the formal economy.

Most new jobs in the informal economy are self-employment and own-account work in micro- and small enterprises. For example, in Latin America in the 1990s, only one-third of net job gains in private-sector urban employment was in enterprises with more than 20 workers.[3] But since micro- and small enterprises are mainly in the least productive, lowest earning activities, their share of economic output of the country lags substantially behind their share of employment. Most of the jobs created in these enterprises are actually own-account work,[4] characterized by low levels of pro-

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[1] ILO: *A Global Agenda for Employment: Discussion paper* (Geneva, 2001). See also idem: *A Global Agenda for Employment: Summary*, Global Employment Forum, Geneva, 1-3 Nov. 2001.

[2] The method of estimation is explained in N. Majid: *The size of the working poor population in developing countries*, Employment Paper 2001/16 (Geneva, 2001), pp. 3-4.

[3] ILO: *A Global Agenda for Employment: Discussion paper*, op. cit., pp. 25-26.

[4] Surveys conducted under the 1994-95 ILO Interdepartmental Project on the Informal Sector in Manila, Dar es Salaam and Bogotá suggested that approximately four out of five informal businesses were one-person operations.

ductivity, low levels of technology and skills, very low and irregular incomes, long working hours, poor if not hazardous working environments and highly unstable employment.

Creation of good-quality jobs is determined to a large extent by enterprise creation, innovation and expansion. Where the potential for entrepreneurship, creativity, dynamic growth and productive job creation is stifled, entrepreneurs end up in the informal rather than the formal economy. In the appropriate policy and institutional environments, and if a variety of regulatory and bureaucratic obstacles are removed, entrepreneurship could flourish and business initiatives could be turned into viable, sustainable, productive – and formal – businesses and jobs for workers. Laws and regulations regarding business registration and operation are often too complicated, costly or irrelevant to the situation of micro-enterprises. Micro-entrepreneurs and potential entrepreneurs also face discriminatory or non-supportive policies with respect to access to finance, information, skills, organized markets, property rights, infrastructure and public services. The constraints they face mean that they are not able to operate their businesses with a growth perspective and they cannot hire workers and provide them with decent working conditions. In many circumstances, the pressures may be such that they rely on unpaid family workers, including child labour in some cases.

Statistical information is lacking, but it is estimated that in many countries, nearly half the micro-enterprises are headed by women, a percentage that is much higher than that for the larger and more formal enterprises. Many women are also co-entrepreneurs or participate in family enterprise management. There is also evidence in many countries of the feminization of certain sectors, especially in services with low barriers to entry, low skill requirements and low financial returns. But women micro-entrepreneurs have additional, gender-specific constraints, many of them social and cultural, at various levels, as shown in box 6.1.

Young people, too, need special attention. The majority of the world's youth currently work in the informal economy. In Latin America, for instance, the youth unemployment rate doubled in the 1990s, rising from 8 per cent in 1990 to 16 per cent in 1999; at the same time, social security coverage for youth dropped from 44 per cent to 38 per cent. Almost all newly created jobs for young people were in the informal economy, where wages were some 44 per cent lower than in the formal economy.[5] In the next ten years, some 1 billion young men and women will enter the working-age population, and the challenge, especially in developing countries where most of this increase will take place, is to "develop and implement strategies that give young people everywhere a real chance to find decent and productive work".[6]

The seriousness of the youth employment problem prompted the Secretary-General of the United Nations to join with the heads of the ILO and the World Bank to convene "a high-level policy network on youth employment – drawing on the most creative leaders in private industry, civil society and economic policy to explore imaginative approaches to this difficult challenge. I will ask this policy network to propose a set of recommendations that I can convey to world leaders within a year. The possible sources of solutions will include the Internet and the informal sector, espe-

[5] ILO: *Youth and work: Global trends* (Geneva, undated [2001]).

[6] United Nations Millennium Declaration, resolution 55/2 of 18 Sep. 2000 (A/RES/55/2), para. 20.

Box 6.1. Levels of mutually reinforcing constraints on female micro-enterprise

Enterprise constraints	Macro level	Household level	Individual level
Resources and property	Unequal inheritance laws, inequality in marriage contract and community access to land	Male appropriation of household/family property	Lack of individual property
Income	Legal systems which treat women as dependants rather than individuals, also reflected in tax and benefit systems	Male appropriation of incomes	Lack of control over income
	Lack of public welfare provision or recognition of costs of reproductive services	Female provisioning of income and male withdrawal of income	Prioritization of investment in household
	Low female wages		Low income for investments
Credit	Financial system discriminating against women	Male appropriation of credit	Lack of collateral
Skills	Lack of opportunities for apprenticeship	Lack of investment in female education and skills acquisition	Lack of confidence and ability to enter new areas of a activity
	Gender-stereotyped training and education which devalue women	Low value of female skills	
	Discrimination in access to education system and training		
Marketing	Lack of access to marketing support	Concern with family honour and restrictions on female mobility	Lack of information and networks

	Lack of marketing support for female-dominated industries		
	Harassment of female informal workers		
Labour	Unwillingness of men to work under a woman entrepreneur	Limited ability to obtain unpaid male family labour	Lack of networks and authority
		Women's responsibility for unpaid family labour	Lack of time
General underlying constraints on change	Institutionalized discrimination and violence	Opposition to female independence and autonomy	Lack of autonomy
	Lack of women's participation in decision-making	Domestic violence	Lack of confidence

Source: L. Mayoux: *Jobs, gender and small enterprises: Getting the policy environment right*, SEED Working Paper No. 15 (Geneva, ILO, 2001), p. 54.

cially the contribution that small enterprises can make to employment generation".[7] The High-Level Panel on Youth Employment, which met in July 2001, recommended that

> the heads of the United Nations, the World Bank and the International Labour Office develop a new partnership between their organizations and national governments in catalysing action for youth employment, where strategies are developed at a global level, while policies and action plans are developed at a national level. Civil society, the business community, employers, trade unions and youth organizations should also be invited to contribute to policy making and implementation at both global and national levels.

The panel identified four priorities for national action plans: enhancing employability, promoting equal opportunities between young women and men, promoting entrepreneurship and employment creation, importantly, through measures to "improve economic and human capabilities, productivity and incomes for young people working in the informal economy.[8]

[7] United Nations: *We the peoples: The role of the United Nations in the twenty-first century*, Report of the Secretary-General (A/54/2000), paras. 110-111.

[8] United Nations: *A global alliance for youth employment: Recommendations of the Secretary-General's High-Level Panel on Youth Employment*, Follow-up to the outcome of the Millennium Summit (A/56/422), 27 Sep. 2001.

CREATING QUALITY JOBS AND ENHANCING EMPLOYABILITY

Job creation is undeniably at the heart of solving the employment deficit, but this does not mean creation of unrecognized, unprotected jobs in the informal economy. As pointed out in Chapter I, in 1991 the International Labour Conference had already strongly emphasized that the informal economy should not be developed or promoted as a convenient low-cost way of creating employment. *The goal of decent work can be met only through ensuring that the jobs created are productive and observe fundamental principles and rights at work, and that both workers and businesses have the capacity and flexibility to be able to move up the continuum to increasingly better jobs in the formal economy.* This chapter therefore focuses on measures, on the one hand, to invest in the workforce (with special attention to the most disadvantaged) so as to promote their employability, productivity and adaptability and, on the other, to make it easier for micro- and small enterprises to start up, grow and, very importantly, adopt high-road strategies that enhance productivity and also provide decent jobs for workers. "A successful approach to employment policy is founded on investing in people and encouraging their entrepreneurial initiative."[9] A conducive policy and legal framework, appropriate and supportive institutional structures and good governance are all essential if these measures are to be effective and if the jobs created are to be decent and formal, rather than being in the informal economy.

PROMOTING EMPLOYABILITY AND PRODUCTIVITY THROUGH INVESTING IN KNOWLEDGE AND SKILLS

It is useful to start by clarifying what we mean by "employability" and why employability is critical if workers are to be able to move up the continuum from the informal to the formal end and to decent work.

> Employability ... is a key outcome of education and training of high quality, as well as a range of other policies. It encompasses the skills, knowledge and competencies that enhance a worker's ability to secure and retain a job, progress at work and cope with change, secure another job if she/he so wishes or has been laid off, and enter more easily into the labour market at different periods of the life cycle. Individuals are most employable when they have broad-based education and training, basic and portable high-level skills, including teamwork, problem-solving, information and communications technology (ICT) and communication and language skills, learning to learn skills, and competencies to protect themselves and their colleagues against occupational hazards and diseases ... Workers' employability can only be sustained in an economic environment that promotes job growth and rewards individual and collective investments in human resources training and development.[10]

Literacy and basic education

An essential ingredient for employability and access to decent work is basic literacy. Especially in today's knowledge-based economy, the illiterate have little other choice but to work in the informal economy. "Basic education is important as a means

[9] ILO: *A Global Agenda for Employment: Summary*, op. cit., p. 10.

[10] ILO: *Conclusions concerning human resources training and development*, International Labour Conference, 88th Session, Geneva, 2000, para. 9.

of ensuring mobility and higher incomes within the informal sector, as well as a potential means of moving from the informal to the formal sector."[11] However, basic literacy eludes some 40 per cent of adults in sub-Saharan Africa and almost half the adult population in South Asia; and the absolute number of illiterates increased in the 1990s. Women are nearly always worse affected than men. Although primary and secondary school enrolments have been rising the world over, the stark reality is that some 113 million children are still not in primary education – two-thirds of whom are girls – and these are the children most vulnerable to being child workers in the informal economy.

No country's employment promotion strategy can succeed by leapfrogging over the provision of literacy and basic education. To address the all-important issue of education as both a basic right and the foundation of an individual's employability in a decent job, it is worth noting the targets set at UNESCO's Education for All Forum in Dakar in 2000: a 50 per cent improvement in adult literacy by 2015, especially for women, and equitable access to basic and continuing education for all adults; universal access to primary education for all children by 2015; and the elimination of gender disparities in primary and secondary education by 2005. The ILO is supporting these efforts, for example by emphasizing the key role of basic education for employability in the context of discussion of a new ILO Human Resources Development Recommendation;[12] and by strengthening its collaboration with UNESCO and its International Centre for Technical and Vocational Education and Training in promoting access of adults and youth to employment through the creation of opportunities for skills and knowledge development.[13]

Training and skills development for formal, decent employment

> Training can be one of the instruments that, together with other measures, address the challenge of the informal sector ... The role of training is not to prepare people for the informal sector and keep them in the informal sector; or to expand the informal sector; but rather it should go in conjunction with other instruments, such as fiscal policies, provision of credit, and extension of social protection and labour laws, to improve the performance of enterprises and the employability of workers in order to transform what are often marginal, survival activities into decent work fully integrated into mainstream economic life. Prior learning and skills gained in the sector should be validated, as they will help the said workers gain access to the formal labour market. The social partners should be fully involved in developing these programmes.[14]

Because of the heterogeneity of the informal economy, there is a wide range of training needs. The kinds of skills needed are not limited to technical and entrepreneurial skills (entrepreneurship training is discussed below in this chapter). As described above, life skills and core work skills are critical for employability. For workers to keep their skills up to date with changing situations, the ability to learn on

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[11] ILO: *World Employment Report 1998-99: Employability in the global economy – How training matters* (Geneva, 1998), p. 173.

[12] See ILO: *Learning and training for work in the knowledge society*, Report IV (1), International Labour Conference, 91st Session, Geneva, 2003 (Geneva, 2002).

[13] See ILO: *A Global Agenda for Employment: Discussion paper*, op. cit., pp. 35-36.

[14] ILO: *Conclusions concerning human resources training and development*, op. cit., para. 7.

a continuous basis, to find and analyse new information pertinent to the evolving situation and surroundings is essential. Adaptability, which is crucial for workers in formal employment, is even more so for those in informal employment, considering the precariousness of the economic units and employment relationships. This is why the concept of lifelong learning is so important for informal workers, and also why training for informal workers should focus on enhancing "learning-to-learn" skills and not just training for specific occupational skills. This also explains why emphasis should be given to portable skills that can be applied to several closely related jobs, and to using the links between the formal and informal economies as a conduit for transmitting technical knowledge and skills between the different segments of the economy and society.

Unfortunately, training and human resource development policies and programmes tend to pay only scant attention to the informal economy, in spite of its share in total employment.[15] Consequently, there are persistent inequalities in access to training and skills development. Furthermore, rapid technological changes and a widening digital divide result in informal labour being increasingly marginalized. At the same time, informal workers themselves may not see the need for training; often microcredit is much more in demand.[16] The causes for this mismatch between the demand for training and the need for training in the informal economy should be addressed – the causes could be related to cost, heavy workloads, especially for women, lack of basic education (which may explain the lack of awareness), lack of relevance of existing training facilities, transportation difficulties due to the distance of training facilities, and so on. Where training is available to informal workers, it may not lead to gainful employment because, in many cases, it perpetuates low skills, obsolete technologies, traditional and usually unremunerative trades and job stereotypes. This is particularly true of poor women, who rarely have access to those skills that provide decent work.[17]

To provide training that is meaningful in the informal economy, it is important to determine carefully what sort of skills are currently being used in the micro-enterprises concerned, how people working there have acquired these skills and what, if anything, might be wrong in the circumstances with either the skills or the way in which they were acquired. While an improvement or upgrading of the technologies used in the informal economy must clearly be a key objective of any approach to training – so as to enable the working poor to break out of their disadvantaged position – it is important to be aware of the often quite remarkable ingenuity and capacity to innovate and improvise that exists in the informal economy. Such ingenuity is the result of years of learning how to survive in a hostile environment. Therefore, whatever approach is followed, it is important that training for the informal economy build

[15] This was the conclusion reached, for example, for three countries of East Africa by H.C. Haan: *Training for work in the informal sector: Evidence from Kenya, Tanzania and Uganda* (Geneva, ILO, 2001).

[16] This was confirmed in a recent ILO study in Mongolia; see E. Morris: *The informal sector in Mongolia: Profiles, needs and strategies* (Bangkok, ILO, 2001).

[17] For a detailed discussion of gender issues in training see, for example, ILO: *Modular package on gender, poverty and employment* (Geneva, ILO, 2000). See also: V. Guzmán; M. Irigoin: *Módulos de formación para la empleabilidad y ciudadanía* (Montevideo, CINTERFOR/ILO, 2000).

on, not stifle, these qualities of informal workers. Also, the merits of relatively unexplored pathways of learning should be recognized and protected from being supplanted with training systems that may in fact be less effective.[18] Training needs assessment should take into consideration not only opportunities but also the needs of informal workers and enterprises, and their potential to be trained – their willingness, their availability and the skills base they already have.

Providing training for those in the informal economy

Recommending training where it will make a difference is one thing, providing the training is another. Various stakeholders provide training to different subsets of the informal economy. Formal training systems (comprising public and private vocational training centres, technical colleges, apprenticeship in formal enterprises, etc.) primarily address the skill requirements of formal wage job markets, and are mainly linked to formal, often medium-sized to large enterprises concentrated in urban areas, and dispense training in formal training centres. To cater to those in the informal economy, formal training establishments may need to lower their entry requirements and adopt more flexible training methods, for example by bringing the training into closer contact with the realities of the workplace.

The main informal training system in micro- and small enterprises is traditional apprenticeship, which is often valued by informal entrepreneurs as the "most useful learning experience".[19] There is a direct return to this training as apprentices either stay on as skilled labour in the workshops or go on to start their own enterprises. Although Kenya has a relatively well-developed formal training system, there have been more apprentices enrolled in the informal sector than in the formal sector.[20] But although the informal apprenticeship system has proved to be a successful institution of skill transfer, it does have serious problems and there is ample scope for improvement. Some countries have taken steps to build on the strengths of the apprenticeship system while addressing its weaknesses, including making it more relevant to the challenges of the globalized economy.[21] These steps include support to the "master trainers" (normally informal micro-entrepreneurs) in procuring improved training materials and tools; training for the master trainers or master craftsmen to upgrade their skills and to learn new technologies; and complementary training for apprentices in the theoretical aspects of trade, management skills and occupational safety and health.

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[18] F. Fluitman: "Training and work in the informal sector: Issues and good practices", in A.S. Oberai and G.K. Chadha (eds.): *Job creation in urban informal sector in India: Issues and policy options* (New Delhi, ILO/SAAT, 2001), p. 431.

[19] S. Birks; F. Fluitman; X. Oudin; C. Sinclair: *Skills acquisition in micro-enterprises: Evidence from West Africa* (Paris, OECD, 1994), p. 56.

[20] S. McGrath et al.: *Education and training for the informal sector: Main report* (London, Overseas Development Administration, 1995), p. 68.

[21] Examples of this approach are to be found in West Africa, where the apprenticeship system is widespread. See, for instance, G. Barthélémy: *Réflexions sur une expérience de l'apprentissage dual au Mali et Burkina Faso menée par Swisscontact*, http://www.workandskills.ch/downlonds/Barthelemy.pdf

Besides informal apprenticeship, there are also government, private sector and NGO-based training interventions. Such interventions normally take the form of extension services, government-sponsored vocational training for informal operators, entrepreneurship development programmes and linking training with production.[22] The establishment of micro-enterprise extension facilities or small business advisory services which address training needs in an integrated manner can be important. Linking training to other support services – not only business advisory services and microcredit but also social services and information on new technologies – is often effective. In fact, where training has failed to have an impact on earnings or on the ability of informal operators to move into the formal economy, this has been mainly because of "bureaucratic attitudes adopted (treating participants as inferior) and, most importantly, because training is considered as a single-intervention approach, in the absence of the necessary complementary inputs. Skill constraints are only one of the problems of the informal sector".[23]

Since 75 per cent of poor people in developing countries live in rural areas and engage in activities which for the most part lie outside the bounds of the formal economy, it is obviously critical to focus on ways of enhancing their productivity. Training tailored to the realities and needs of rural workers is therefore extremely important. With mechanization and rapid technological advances, fewer and fewer people are able to find remunerative employment in agriculture. They need training and a range of other supports for productive rural non-farm activities, otherwise they will migrate to urban areas and compound the problems of the urban informal economy. Box 6.2 provides a useful example of training focused on rural areas and young women. Providing access to skills development is a critical means of promoting gender equality. Unless skills development initiatives have an explicit gender equality agenda, there is a real risk that they may contribute to increasing gender gaps rather than promoting gender equality.

Another example of a training system that could be suited to the needs of rural informal workers is the community-based training for self-employment and income generation programme, which advocates an area-cum-target group approach aimed at utilizing available local opportunities and resources. In Jamaica, for instance, community-based training financed by the HEART Trust/National Training Agency (NTA) combines training in vocational skills with entrepreneurship development, business management and community development. The methodology is based on the premise that income generation results not just from training, but from stimulating all the factors of production inside and outside a community.[24]

Financing training on a sustainable basis for workers in informal employment is a major stumbling block. Government must always assume the primary responsibility for investing in basic education and initial training, and it should also invest in other forms of training. It must also share the greatest responsibility for investments directed

[22] See Chapter 7, "Training and the labour market: The impact on the employability of informal sector and vulnerable workers", in ILO: *World Employment Report 1998-99*, op. cit., pp. 163-178.

[23] ibid., p. 177.

[24] A.M. Miller-Stennett: *Informal sector training in Jamaica: An assessment*, unpublished report for the ILO (May 2001).

Box 6.2. Training for self-employment: The CMES in Bangladesh

The Centre for Mass Education in Science (CMES), an NGO founded in 1978 in Bangladesh, uses a flexible training programme that makes training a supportive force to skills development, leading to immediate income generation. The programme is directed at adolescents and youth who can afford education only if they are learning while earning. It now serves some 20,000 students at a time in 17 rural areas of Bangladesh. A specific gender-empowerment programme, the Adolescent Girls' Programme, has been developed to help girls shake off discrimination and stereotypes and to take an active part in the economy in more challenging skilled work.

A crucial aspect of the programme is careful research into the present economic and technology situation, especially in the informal economy and its interface with the formal economy. CMES identifies and pilots small-scale income-generating activities which have not been tried before in the villages, but for which demand has been dormant while they were spreading in cities and towns. These begin in the form of students learning and practising subjects. The initial investment comes from CMES, which acts as the risk-taker. But in many cases the activities ultimately become profitable. Some of the graduating students even start businesses of their own in these trades. The skill training ranges from simple soap-making, candle-making and carpentry to small-scale scientific poultry farms to bio-fertilizers, solar electrification and computer use.

Self-employment, as well as employment in existing neighbouring enterprises, was emphasized throughout the training. Regarding self-employment, microcredit institutions in Bangladesh villages were fully utilized. However, CMES itself has its own microcredit scheme, which is unconventional in the sense that it introduced microcredit for young persons and unmarried girls in particular, who are not regarded as credit-worthy by other microcredit providers. CMES's success in this field has proved them wrong. CMES tries to link microcredit with new and non-stereotyped livelihood activities.

Source: M. Ibrahim: *Institutional implications in the knowledge-skills linkages within the people's economy: The Bangladesh perspective*, paper for the International Conference on Linking Work, Skills and Knowledge: Learning for Survival and Growth, 10-12 Sep. 2001, Interlaken, Switzerland, http://www.workandskills.ch/downloads/ibrahim.pdf

at groups with the aim of combating social exclusion or discrimination. Responsibility for skills acquisition cannot rest only with individual workers. Of course, as far as possible, end users should share the cost of the training. However, if informal workers are to share in the costs of training, there should be clear financial benefits for them. And even when they share in the costs, their contributions are not likely to be adequate. Therefore, other sources of funding need to be found. In the Emilia Romagna region of Italy, for example, local stakeholders (local government, enterprises, the social partners and training institutions) participate together in financing and implementing training programmes.

To enhance the employability and adaptability of workers, it is important that their individual skills be recognized. Many men and women have acquired skills from a

wide range of non-traditional sources, particularly in the informal economy, but these go largely unrecognized. To facilitate the move from the informal to the formal economy, it is critical that these skills and experiences gained through work, everyday activities or formal or non-formal training be assessed, recognized and certified. The development of a national qualifications framework is therefore something to aim for. The ILO is establishing a database on good practices in developing a national qualifications framework. France was one of the first countries to enact a law which entitles women and men to have their skills and experience assessed, irrespective of how these skills were acquired. Countries such as Australia, South Africa and the United Kingdom have also developed assessment mechanisms to recognize prior learning.

The role of the social partners cannot be over-emphasized. They "should strengthen social dialogue on training, share responsibility in formulating education and training policies, and engage in partnerships with each other or with governments for investing in, planning and implementing training".[25]

Quality job creation through enterprise development

The Global Agenda for Employment identifies entrepreneurship development, enterprise creation, innovation and expansion as being at the heart of successful employment policies. The Agenda highlights the importance of assessing the incentives and disincentives that policies may create, perhaps unintentionally, for micro- and small enterprises. It identifies the constraints on the development and growth of efficient and competitive enterprises as involving "a wide swathe of policy areas particularly those arising from difficult access to credit and other financial markets, low levels of technical and managerial skills, insufficient access to markets, inappropriate or overly burdensome registration, licensing and other administrative requirements, and discriminatory practices regarding access to public and private procurement opportunities".[26] At the same time, the Agenda drives home the message that *it is through job quality, improved health and safety at work and access to basic social services – through adopting "high-road strategies" – that businesses can enhance productivity and gain access to new markets, and thereby move into the formal economy. This means, of course, that the workers in these enterprises also directly benefit in terms of protected, formal and decent work.*

The ILO Job Creation in Small and Medium-Sized Enterprises Recommendation, 1998 (No. 189), provides an important basis for the types of measures that could be adopted. The Recommendation applies to micro-enterprises and to both the formal and informal economies. It focuses on both productivity enhancement and job quality, and also provides a framework for national legislation and changes in national regulatory systems designed to move from a regime of enforcement and policing to one that promotes and facilitates the formation and growth of micro- small and medium-sized enterprises. To promote entrepreneurship, innovation and creativity so that enterprises, irrespective of their small size or location, are able to create productive, sus-

[25] ILO: *Conclusions concerning human resources training and development*, op. cit., para. 19.

[26] ILO: *A Global Agenda for Employment: Discussion paper*, op. cit., p. 27.

tainable and quality jobs, Recommendation No. 189 emphasizes the creation of an enabling policy and legal framework; the development of an enterprise culture; the development of an effective service infrastructure; and the representation and organization of micro- and small entrepreneurs.

An enabling policy, legal and regulatory framework

The importance of an enabling policy, legal and regulatory framework is also highlighted in Chapters II and III. In many countries attempts have been made to create an enabling environment for the development of the private sector, but they often result in favouring large, capital-intensive enterprises, sometimes to the detriment of micro-enterprises that are more labour-intensive. In some countries, policies and programmes have been established specifically to develop small and medium-sized enterprises. Indeed, governments are increasingly creating ministries or departments to facilitate the development of small businesses, although here again such businesses are usually defined as being significantly larger than those found in the informal economy.

The business regulation framework must seek to lower the costs of establishing and operating a small business (easier registration procedures, reasonable and fair taxation) and increase the potential benefits of legal registration (access to commercial buyers in the formal economy, more favourable credit markets, legal protection, obtaining foreign exchange). This encourages business start-ups and helps lever micro- and small enterprises into the formal economy. The costs relate to taxes and administrative procedures, and available research suggests that the latter are often more burdensome and costly.[27]

Legal and administrative requirements such as registration and licensing can become an obstacle to micro- and small enterprises, where the transaction costs or costs of compliance per worker are higher than in larger firms. Where the costs of full administrative compliance are prohibitive, compliance tends to be low. To set up an enterprise in Latin American countries takes from 15 to 525 working days and costs between 0.3 and 160 per cent of annual profits.[28] In the United Republic of Tanzania, an ILO study concluded that an enterprise could not remain viable if it had to absorb all the costs related to total observance of the labour legislation.[29] A more recent study carried out in two rural and four urban areas of the United Republic of Tanzania traced the steps and costs incurred by eight owners of different types of micro-enterprises over a period of four months in their attempts to comply with the regulations to for-

[27] See, for example, H. De Soto: *The other path: The invisible revolution in the third world* (New York, Harper and Row, 1989); S. Djankov; R. La Porta; F. Lopez-de-Silanes; A. Schleifer: *The regulation of entry*, Harvard Institute of Economic Research Discussion Paper No. 1904 (Cambridge, Massachusetts, Harvard University, 2000); A. Stone; B. Levy; R. Paredes: "Public institutions and private transactions: A comparative analysis of the legal and regulatory environment for business transactions in Brazil and Chile", in L. Alston; T. Eggerston; D. North (eds.): *Empirical studies in institutional change* (Cambridge, New York, Melbourne, Cambridge University Press, 1996).

[28] V. Tokman (ed.): *Beyond regulation: The informal economy in Latin America* (Boulder, Colorado, Lynne Rienner Publishers, 1992), p. 9.

[29] C. Vargha: *Study on international labour standards and micro-enterprises* (Geneva, ILO, 1992). See also the section on labour legislation and labour administration in Chapter III of this report.

malize their businesses. Even after paying excessive amounts of "extra charges" over what was officially required for registration and licensing, half were unable to achieve formalization.[30] By reducing regulatory requirements to a minimum and then vigorously enforcing them, the transaction costs to businesses and the administrative costs to the authorities would decrease, while at the same time compliance would increase.

Cutting back on the legal, non-legal and administrative costs would also help to offset possible adverse economic and social effects of legalization:

> The different studies agree that legalization would have an immediate detrimental effect on informal activities, especially in terms of employment, profitability and the savings of entrepreneurs, since their net income would drop. It is partly thanks to their semi-legal status and flexibility in hiring workers that informal enterprises are able to create so many jobs at low cost. Legalization could wipe out a large number of small enterprises, or at best substantially reduce the number of employees, as they would be unable to bear the additional costs. In addition, in order to keep earnings constant, entrepreneurs would have to increase prices to offset the cost of legalization, which in turn would result in the loss of customers and a reduction in their level of activity.[31]

Good governance and the role of national and local governments

It is not only national governments that should establish and apply appropriate legal and regulatory provisions to improve the attractiveness and viability of entrepreneurship. Local governments, city or municipal councils have a critical role to play. Streamlining and reducing the cost of business regulation will not suffice – it is not enough to simplify the administrative steps. It is equally important to enhance the efficiency and effectiveness of the bureaucracy[32] (for example through providing one-stop windows where enterprises can obtain accurate advice, apply for registration and licences, etc.; reducing paperwork; offering convenient office hours); offering improved services and letting informal operators know what these services are could greatly improve the environment for both profits and growth. Often, informal operators have to pay not only direct but also indirect costs in the form of fines or bribes to local officials. Harassment, endemic bribery and extortion practised by public officials are often cited as problems faced by informal operators. It is therefore also important to improve the transparency and consistent application of rules and regulations – good governance is part of a conducive environment. Such steps can also increase municipal revenue, thus enhancing their ability to provide the infrastructure and services needed by those in the informal economy.

A conducive environment for entrepreneurship and business growth also has to cover a range of economic and social policies and the provision of support services. Informal enterprises need

> the creation of a level playing field in regard to access to credit and working capital as well as other services that a properly functioning market economy should provide, and the creation or reform of the institutions needed to support an entrepreneurial economy ... Mere

[30] ILO/UNIDO/UNDP: *Roadmap study of the informal sector in mainland Tanzania*, draft report (Dec. 2001).

[31] C. Maldonado: "The informal sector: Legalization or laissez faire?", in *International Labour Review* (Geneva), Vol. 134, No. 6, 1995, p. 723.

[32] ibid., p. 714.

> legislation will not guarantee the elimination of the problems that concern the owners of informal activities, such as access to credit, technology and markets, access to training and government services, and access to market information, etc. This dilemma also vitally affects some of the ILO's objectives of better remuneration, working conditions, social protection and social security – all of which entail a cost. Needless to say, this is also an issue for developing country formal enterprises which are often sensitive to cost increases. Policy-makers and governments need to appreciate that unjustified costs involved in doing business take away from benefits that could be enjoyed by workers and which will help improve their standards of living ... Unless they act to create the conditions from which informals can benefit, mere legalization or formalization is no solution to the problems of either entrepreneurs or workers in the informal economy.[33]

The most populous countries in the world, China and India, as well as South Africa, provide interesting examples of attempts to address the dilemma of achieving higher levels of employment, incomes and welfare in the informal economy on the one hand, and the extension of appropriate forms of regulation and protection on the other. As explained in Chapter II, the Chinese Government has taken an increasing interest in the informal economy to address the problem of massive retrenchments from state-owned enterprises and high unemployment; and Shanghai has become the pioneering case. Box 6.3 describes the efforts of the Shanghai Municipal Government; it is interesting to note the attempt to ensure that informal jobs are protected and can become formal.

An enterprise culture for formal, decent jobs

Education and training can be important tools in entrepreneurship development, especially in combining vocational training with business awareness and management training for micro- and small entrepreneurs. To inculcate an enterprise culture among micro- and small operators, particular attention should be given to awareness campaigns to promote good industrial relations, contract enforcement, workers' rights, better working conditions, higher productivity, environmental consciousness and higher quality of goods and services. The enterprise culture should make micro- and small entrepreneurs recognize that job quality means better business. Developing an enterprise culture is especially important in those countries where the cultural context is not conducive either to entrepreneurship – and sometimes specifically hostile to women entrepreneurs – or to conforming to regulations that are necessary for the effective functioning of enterprises in the surrounding social and physical – especially urban – environment. A facilitative legal system will be more effective when the value system or culture in a country reinforces basic acceptance of, respect for and adherence to the law and the rule of law.

While encouraging micro-entrepreneurs to have a more positive attitude towards appropriate risk-taking and to recognize business failure as a learning experience, it is obviously necessary to take into account the impact on both entrepreneurs and workers. Particularly in Africa and South Asia and some transition countries, experience shows that only a small percentage of workers in the informal economy are in a position to take

[33] S. de Silva: *The informal economy: Issues and challenges*, unpublished paper, 2001. The section on commercial and business regulation in Chapter III of this report also emphasizes that the provision of an enabling environment for micro-enterprises directly benefits informal workers and that reform of labour legislation has to go hand in hand with a review of business regulation.

Box 6.3. Promoting "informal employment" with social protection: The Shanghai Municipal Government

With the intensification of state enterprise reform from the mid-1990s onwards, and subsequent mass redundancies, the Government of China has been looking to the informal economy as a solution to large-scale unemployment. Since September 1996, the Shanghai Municipal Government has initiated a scheme to encourage the development of the informal sector, officially sanctioned through regulations entitled "Several opinions on encouraging laid-off unemployed workers to seek employment in individual labour organizations". As these informal labour organizations do not register with the Industrial and Commercial Bureau, they do not have a legal status as an economic unit in the formal economy.

The Municipal Government has identified 15 types of informal activities: repair and maintenance of household equipment; repair and maintenance of household goods; repair and refurbishment of houses; sewing, washing clothes and hairdressing; domestic help and care assistance; express delivery; fast food and ready-made food; cleaning and maintenance; providing work units with labour; loading and unloading of goods; equipment and tools rental; recycling of waste and old goods; handicrafts workshops; community culture and entertainment; and public works labour. There are two types of informal labour organizations: self-employment labour organizations which are voluntarily set up by laid-off and unemployed workers who raise the capital themselves, manage the enterprises and take responsibility for profits and losses; and the public works labour organizations which receive local government subsidies for street cleaning, security, greening of the environment and cleaning and maintenance of public facilities. The Municipal Government has set up special employment service organs at the levels of city, district, county, street committee and town, to provide assistance to the informal labour organizations to deal with various administrative procedures, such as with the industrial and commercial bureau and tax bureau; assist the self-employed with technical advice such as developing a business plan; act as guarantor for obtaining a bank loan; and organize training. They also offer special subsidies for workers in serious difficulties, including providing them with living expenses, medical care and benefits to supplement wages. The Municipal Government has also issued special protective measures and policies to promote the development of informal labour organizations including:

- inclusion in the city's basic social insurance scheme. Persons in the informal economy make individual contributions to the scheme, which are set at 14.5 per cent lower than those of the formal economy and which use a contribution base below that of the annual average minimum wage in Shanghai;
- training opportunities for employers and employees in the informal economy covering business start-up, basic business skills and technical skills. Informal workers can attend one training course a year free of charge;
- exemption from local taxes for a period of three years, including business tax, income tax and other local taxes. They are also exempt for three years from any non-statutory social insurance contributions related to pensions, medical care and unemployment;

- a city employment promotion fund contributes 50 per cent of risk insurance, and also acts as a guarantor for obtaining bank loans;
- a community public works service agency to provide basic employment for persons with employment difficulties, such as persons with disabilities;
- the "4050 Project" targets women over 40 and men over 50 who face age discrimination in re-employment and encourages five people to set up a business together.

Source: J. Howell: *Good practice study in Shanghai on employment services for the informal sector*, report prepared for the ILO.

the necessary steps to create a formally recognized business. Many of these new micro-businesses do not survive beyond the first year, and still more fail within the second year. Entrepreneurs involved in these initiatives then find themselves worse off than before, having failed in their enterprise endeavours and probably fallen into debt in attempting to finance their business. There should be scope for appropriate support services to guide new micro- and small entrepreneurs and to prevent such failures, as well as to reorient these informal operators to other more profitable endeavours.

Support structures and services for micro-enterprises

To be able to survive in increasingly competitive markets and make the transition to the formal economy, micro-enterprises need to be innovative, adapt to clients' changing needs and increase their productivity, and they often require support to be able to do these things effectively and efficiently. Business support services that can make a significant difference in establishing and operating a micro-enterprise are credit, training, market information and marketing support, technology, business incubators, promotion of inter-firm and intersectoral linkages, including subcontracting, consultancy services, etc.[34] Since credit and training are generally the most important services, they are dealt with in specific sections of this chapter.

One way to improve the sustainability of informal enterprises may be to link them in cooperative structures where jointly owned input supply, credit and marketing services can be organized without compromising the autonomy of the individual entrepreneur. Such cooperatives can be registered as legal entities, thereby taking a significant step towards formalization (see also the section on the role of cooperatives in Chapter V).

The approach in the 1970s and 1980s to providing support services to micro-enterprises was to organize income-generating activities (in particular when the target group was poor women). However, many such programmes tended to involve the beneficiaries in activities that were not sustainable. More recently, increasing interest has been shown in providing a range of business development services to micro-enterprises, by building as much as possible on the capabilities of the private sector to provide services for profit and to promote competition among service providers to ensure quality services. The rationale for this approach is based on the realization that the private sector often already provides such services in many countries.

[34] However, as shown by many surveys, the great majority of micro-entrepreneurs are not offered any support services.

The ILO has played a leading role, in cooperation with the World Bank and several other donor agencies, in developing guiding principles for business development services aimed at building the necessary institutional framework within countries to promote entrepreneurship and support the development of small businesses.[35] The aim is to strengthen the capacity of private intermediary organizations,[36] including enterprises, to provide quality services on a professional and sustainable basis. The SIPROMICRO programme described in box 6.4 is an interesting example.

Box 6.4. Using the Web to support micro-enterprises and to link to the formal economy: SIPROMICRO

Support for informal micro-enterprises in six countries of Central America (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama) is provided through the PROMICRO project. The objectives of this project include: (i) strengthening associations of micro-enterprises; (ii) improving their access to information and disseminating innovative approaches for the promotion of micro-enterprises; and (iii) improving the performance of national micro-enterprise projects and programmes through their regional forums.The PROMICRO project has helped to strengthen the Committee of Central American Micro-Entrepreneurs (COCEMI). Founded in 1992, COCEMI is a non-profit-making organization which represents and promotes the interests of its national affiliates with national, regional and international agencies through networking and lobbying. COCEMI is now a recognized interlocutor in national and regional decision-making concerning the development of micro-enterprises. COCEMI provides a range of business development services to its affiliates.

As PROMICRO has expanded in scope and associations of micro-entrepreneurs in the region have become better organized, the project has pursued the priority objective of improving the dissemination and sharing of information among its partners: micro-enterprises, support institutions, local associations, chambers of commerce, municipalities, NGOs and research institutions. A regional system of information has been established on the Internet (http://www.sipromicro.com). The SIPROMICRO site offers a wide range of information, including major events, ongoing projects, economic data, counselling services, bibliographical references and interactive pages on thematic issues. SIPROMICRO demonstrates that informal micro-entrepreneurs, through their associations, can, like their larger counterparts in the formal economy, take advantage of the most advanced technology and market opportunities.

Source: ILO: *Job creation programmes in the ILO*, Governing Body doc. GB.273/ESP/4/2, 273rd Session, Geneva, Nov. 1998.

[35] Committee of Donor Agencies for Small Enterprise Development: *Business development services for small enterprises: Guiding principles for donor intervention*, 2001 edition (Washington, DC, World Bank, 2001).

[36] Depending on local conditions and comparative advantages, service providers may be employers' and workers' organizations, training institutions, NGOs, chambers of commerce, private enterprises, and sometimes semi-private or public sector organizations. Networks and cooperation between actors are encouraged.

However, most programmes providing support services to small enterprises target small and medium-sized enterprises rather than micro-enterprises and, as a result, they may end up marginalizing rather than helping the great majority of informal entrepreneurs. These support programmes tend to pick the winners and neglect the others. In particular, home-based micro-entrepreneurs – often women – lack visibility and are overlooked by such programmes. Following the onset of the Asian financial crisis in 1997, this was the approach initially adopted by the Government of Thailand in trying to reinvigorate the economy by promoting small and medium-sized enterprises. Many of the support mechanisms were provided through existing support channels – those that served the more formal, larger enterprises. The ILO in Thailand advocated the need to recognize the role that micro-enterprises play in creating employment and wealth, and these enterprises were eventually given prominence in the Government's Master Plan.

Given the growing role of women in the informal economy, specific measures should be designed to support women who are or wish to become entrepreneurs. Such measures include access to training in basic business skills and market opportunities in non-traditional sectors and helping them to overcome specific constraints in such areas as access to credit and to information and communications technology (ICT). Taking into account the other constraints shown in box 6.1 above, there should also be efforts to promote networking and associations of women entrepreneurs and to increase their visibility within their own communities as role models and mentors.

Recommendation No. 189 also calls for special measures and incentives targeting especially disadvantaged groups, including not only women but also the long-term unemployed, persons affected by structural adjustment or restrictive and discriminatory practices, disabled persons, demobilized military personnel, young persons including graduates, older workers, ethnic minorities and indigenous and tribal peoples – i.e. the ones most likely to be in the informal economy.

Improving job quality in micro- and small enterprises

To ensure that micro-enterprises create not only more jobs but, more importantly, better jobs, the challenge is to demonstrate how they can improve productivity and access to new markets through job quality. Even for micro- and small businesses currently in the informal economy, modest improvements in working conditions, material management and waste reduction, basic safety measures and better human relations management can quickly produce tangible results in terms of productivity and profits – and help them to move to the formal economy. But employers and workers in the informal economy need to be convinced of this. Improving job quality must be done in ways that are not seen to threaten their very livelihood. For example, ILO surveys reveal that workers in micro-enterprises in India consider the survival of their enterprise far more important than improving their own working conditions. The ILO has therefore been gathering the evidence and facts to show that better jobs do add up to better business for micro- and small enterprises (box 6.5; see also the section on occupational safety and health in Chapter IV).

Box 6.5. Job quality is good business for micro- and small enterprises

- In a small factory making kettles in the United Republic of Tanzania, the investment of US$100 to install fans and enlarge windows improved working conditions to such an extent that production increased from 450 to 660 kettles a day. Daily profits increased by over $200.
- In the Philippines, Emmalyn Arevalo's home-based shoemaking shop struggled along for years as a typical family-run business. Despite the family's collective efforts, their small earnings were barely enough to meet basic needs. In 1996, Emmalyn participated in the ILO pilot training programme, Improve your Work Environment and Business (IWEB) for micro-manufacturers. She gave priority to the improvement of working conditions through: (i) cooperation and better human and technical understanding of the business; (ii) more vigilance in controlling quality; (iii) improvements in the working environment; (iv) improved shop-floor layout and production flow, resulting in greater safety for the workers as well as cleaner and more effective production; and (v) effective record-keeping to monitor the shop's expenses and sales. Material productivity increased by 20 per cent. The business gained a competitive edge and began to grow.
- Hari Krishna Sigdel lives in Nepal and is 22 years old. He quit secondary school and started working in factories. He has been at his present workplace for more than five years. The enterprise took part in the ILO IWEB pilot programme and Sigdel provided the following practical suggestions for improving working conditions at his workplace: (i) increase the floor height of the workplace to avoid disturbance from rain; (ii) provide a toilet so that the workers do not need to walk a long distance; (iii) install fans and ventilation to enable workers to work better in summer; (iv) provide enough drinking water; and (v) increase the working space for better flow of work. His employer agreed to implement almost all the recommendations contributed by this employee.

Source: ILO: *Job quality: It's just good business* (Turin, International Training Centre of the ILO, undated [2001]).

Securing property rights

Recommendation No. 189 draws attention to legal provisions concerning property rights; legal provisions determine whether assets can be turned into productive capital through sale, lease or use as collateral. The absence of legal property rights, including intellectual property, means that potential entrepreneurs are not able to use, build, recombine or exchange their assets in the most productive way in order to generate additional value. For example, if informal operators held title to their land, they would be able not only to build on the land but also to use it as collateral. Without being able to convert assets into productive capital – which amounts to holding "dead capital" – they do not have the means for entrepreneurship, innovation, business growth or development. This also means that a country is not able to effectively harness capital from domestically available assets.

De Soto[37] puts forward a highly persuasive argument that where the commercial and financial resources and assets of informal operators are integrated into an orderly and coherent legal and financial framework – so as to provide for recording property and relevant information in a standardized, simple and cost-effective way – they can be used by the informal operators to gain access to capital and thereby generate surplus value and more jobs (see box 6.6). The laws must also be enforced impartially, consistently and speedily to ensure security or protection of property rights. De Soto and his research organization, the Institute for Liberty and Democracy (ILD), have helped numerous countries over the past decade to "paperize" or give legal status to the assets of the poor. De Soto's approach is to start with mapping the "non-reported sector" or those assets which fall outside the existing legal and regulatory structure. He then examines how the poor view the law and what aspects are most likely to affect them negatively. Giving the poor a voice is important. They are often informally organized or have various types of network structures and these structures can be given visibility and brought into the political debate about changing formal laws. The next stage is to change the legal system: to re-regulate, simplify existing legislation and regulations for the formal economy (cumbersome or irrelevant legislation being a contributing factor in the process of informalization), provide incentives (tax holidays, for instance) to draw the informal activities into the formal system, and work toward the eventual establishment of a unified system that applies to and benefits all of the economic actors. The expected result is a reduction in the cost of formality thanks to simplicity and greater efficiency, increased access by the poor to services and protection, and significant growth in state revenue. It would be useful to have more information about the extent to which labour costs factor into the calculations (for example, by how much would the cost of formality rise if employers were to observe labour legislation and provide social protection to informal workers) and whether and how wages and other conditions of employment could be improved through the lowering of business legalization costs. Transaction costs may very well be more important than labour costs in the informal economy, but this requires further study.

Reform of legislation regarding property should give special attention to gender inequalities in rights to own and control property. In many developing countries where secure title to land does exist, it is men who own and control the land. In several countries, women cannot even hold title to land. In Mozambique, for instance, the National Farmers Union (NFU), an association of some 430 local cooperatives and farmers' groups led by a woman grass-roots leader, lobbies the Government to issue land-ownership deeds to rural women. Despite resistance from the male-dominated bureaucracy, the NFU has helped some 95 per cent of its members to secure deeds of ownership.[38]

Women's ability to become entrepreneurs is often seriously limited by their lack of property rights. There may be overt discrimination in state legislation whereby

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[37] H. De Soto: *The mystery of capital: Why capitalism triumphs in the West and fails everywhere else* (New York, Basic Books, 2000).

[38] United Nations Conference on Trade and Development: *Expert Meeting on Mainstreaming Gender in order to Promote Opportunities: Note by the UNCTAD Secretariat*, Trade and Development Board, Commission on Enterprise, Business Facilitation and Development, Geneva, 14-16 Nov. 2001 (TD/B/Com.3/EM.14/2).

Box 6.6. Creating jobs through securing property rights

In Peru, Hernando de Soto's Institute for Liberty and Democracy (ILD) helped to alleviate the problem of property rights in the country's system. The impact of an upsurge in the number of properties registered was described as follows:

> We have brought over 276,000 enterprises from the informal sector to the formal one. This was done by re-engineering the whole process and cutting the delays and red tape for entrepreneurs to legally register a business from about 300 days to less than a day. The weight of the process is now on the bureaucracy rather than on the business owners. Now that these enterprises are in the formal sector, the Government is collecting hundreds of millions of dollars more in taxes than before. These enterprises are also employing more people. Over 500,000 new jobs have been created just with this process because now that people own legal businesses, they can advertise and don't have to pay bribes for protection.

Source: *Economic Reform Today*: "Securing property rights: The foundation of markets": An interview with Hernando de Soto by the Center for International Private Enterprise, http://www.cipe.org/ert/e19/desoto.php3, 20 Dec. 2001.

women are treated as jural minors under the authority of fathers, husbands, brothers or sons for the whole of their lives or, more commonly, the inequality is enshrined in customary law. De Soto also encourages common-law couples to have registered marriages to ensure that women have a legal stake in "paperized" assets.

Financing in the informal economy

Developing an enterprise, however small, almost invariably requires more money than potential entrepreneurs have readily at hand. Often, access to finance is the most important single factor in creating an enterprise, keeping it going and maintaining jobs. Micro-entrepreneurs in the informal economy rate the need for finance as one of their top priorities. The issue is not about whether credit is available, but on what terms and whether these terms are within the reach of micro-entrepreneurs and potential entrepreneurs. Few informal enterprises are able to obtain credit from banks since they have no collateral to offer as a guarantee. As a result, they are obliged to borrow from informal sources of finance. This is reflected in the rapid growth of microfinance initiatives in recent years directed at the needs of those working in the burgeoning informal economies.

In the formal financial market, loans are based on contracts between lenders and borrowers. Contracts have a written form and they can be used in judicial proceedings in the event of the borrower's insolvency. These norms are enforceable by law. In addition to being risk-averse, banks are motivated by profit and hence stay away from transactions – such as small-scale deals – that entail substantial administrative costs.

Finance in the informal financial market works differently. In practice, informal financing mechanisms have always existed. Most operators in the informal economy use informal finance. Two forms can be found in almost all parts of the developing

world: informal financial arrangements with priced transactions and rotating savings and credit associations (ROSCAs). In the first type, the transaction leads to a net return to one party; in the second, the return is evenly distributed among all contracting parties involved. Both presuppose an intimate knowledge of the contracting parties. In both cases proximity replaces a formal written contract. Informal financial arrangements with priced transactions are offered for example by moneylenders, who usually provide a single financial service, such as emergency loans, often on usurious terms. Some people make a living out of moneylending, while others lend money just as a side business in addition to other economic activities, such as agriculture, transport or commerce. In extreme cases, this practice can lead to interlinked contracts and even to debt bondage.[39]

ROSCAs, or *tontines* as they are known in some countries, group together up to 200 people who have some common bond, such as being in the same parish, neighbourhood, ethnic group, age or economic activity. They meet periodically to deposit a fixed and equal amount of money in a common fund. Each member has an assigned turn in the group which entitles him or her to everybody's contribution. The money is generally used to finance consumer items, rites of passage or personal emergencies. People join ROSCAs for the access to financial services, but also for the sense of belonging to a group. They appreciate the feeling of being able to go back to their ROSCA in case of need: a ROSCA expresses the existence of social capital. ROSCAs are not always appropriate for financing the development of informal enterprises as access to the funds is usually conditioned by a strict order or an auctioning system.

Informal finance continues to exist and thrive, alongside microfinance institutions, such as the Grameen Bank in Bangladesh, Bank Rakyat in Indonesia and the Small Enterprise Foundation in South Africa. Microfinance schemes mimic informal finance operating techniques: collateral-free lending, quick and simple transactions, client graduation and, above all, the use of joint liability as a substitute for collateral. What informal finance and microfinance have in common is that they consider the household and the enterprise as a unit and are usually not concerned with how the loan is used – whether for consumption, productive investment or savings. Microfinance schemes often operate in the same market as informal finance. The competition has both positive and negative effects. For example, Grameen Bank's operations have reduced the interest rate charged by traditional moneylenders in areas where there had been no competition at all before. On the other hand, aggressive microfinance institutions also push some poor household enterprises beyond their absorption capacity for debt, leading to debt recycling. The net effect on the poor households may be a heavier debt burden.

Initially, microfinance institutions considered the demand for small loans as the predominant need of poor people in the informal sector. These were to provide for unexpected expenditure needs or to allow the self-employed to realize small investment opportunities. Grameen Bank and other microfinance institution networks operate on the assumption that the absorption capacity for small loans is greater than what

[39] The disastrous social consequences of monopolistic and backward local financial markets that lead to debt bondage are examined in ILO: *Stopping forced labour: Global Report under the follow-up to the ILO Declaration on Fundamental Principles and Rights at Work*, Report I (B), International Labour Conference, 89th Session, Geneva, 2001.

is being catered to by moneylenders. The positive side effect of microfinance in this strategy is to induce more competition and thus lower the credit interest rate that poor people have to pay.

It is now widely acknowledged that the poor save more, indeed a lot more, than was hitherto recognized. Indeed, one of the most striking features of the informal economy throughout the world is the fact that it has been able to mobilize quite significant savings from within its own ranks. Poor people in the informal economy save for a variety of motives, but basically because they need to protect themselves against risks. In this respect, savings in the informal economy are the main vehicle for risk mitigation and income flow smoothing. It is a form of non-contractual insurance. The strong propensity to save in the informal sector is shown by the fact that in West Africa, for example, in most savings-based microfinance institutions, such as credit unions, village banks or savings and credit cooperatives, at least six times as many people make deposits as take out loans at any point in time.[40]

Finance can also be a powerful tool to initiate and reinforce self-organization among those in the informal economy. It is often money transactions that trigger off the formation of joint liability and solidarity groups, some of which eventually grow into multi-purpose self-help organizations. It is money transactions that are also at the origin of savings clubs, burial societies and *tontines*. Microfinance and risk-pooling build on social capital. Not surprisingly, those who are often legally, socially or culturally discriminated against in the informal economy, namely women, resort more than others to setting up self-help organizations that basically have a hybrid financial-social function.

There are also important links between microfinance and micro-insurance.[41] Microfinance schemes can provide a regular contribution source for micro-insurance schemes. On the other hand, micro-health insurance schemes can provide a better guarantee for economic loans to be paid off because, in the event of serious health problems, the borrower would receive adequate treatment.

In contrast to developing countries, where informal finance has a long tradition predating the opening up of those economies to the global market, transition economies are characterized by the collapse or at least serious dysfunctioning of the banking sector, without an informal safety net to absorb the economic and social disruption. Anyone attempting to set up a small business or upscale an existing one is largely constrained to resorting to either self-financing or black market transactions. Although there would appear to be an enormous market niche for microfinance institutions in these countries, their market share is at present still very small.[42]

There are different promotion strategies to ensure better outreach and performance of financial mechanisms in the informal economy. They differ in the way in

[40] ILO; Central Bank of the West African States: *Data bank on microfinance institutions in WAMU* [West African Monetary Union] (ILO, 1999).

[41] See also the section on micro-insurance in Chapter IV.

[42] The micro-bank programme implemented by the European Bank for Reconstruction and Development (EBRD) is probably the only initiative that reaches more than 5 per cent of self-employed and micro-enterprises in the Russian Federation and several other Eastern European countries. The ILO is implementing a programme in the transition countries entitled "Enterprise creation by the unemployed – Microfinance for self-employment", which addresses the start-up needs of laid-off workers.

which they interpret the net resource deficit within the informal economy. For instance, the Grameen Bank considers that a net injection of capital is required which leads to surpluses for the poor. But promoters of financial cooperatives such as credit unions believe that what is needed is a more efficient allocation of resources, greater access for the working poor to member-based, decentralized financial systems, and better management.

Microfinance often goes hand in hand with the upgrading of technical and managerial skills of the borrower, so that he or she can make the most productive use of the resources. Above all, the policy and regulatory framework plays a key role in facilitating and encouraging the emergence of microfinance institutions, financial cooperatives and other service providers and in ensuring the stability of the financial system.

Local economic development and quality job creation

In order to create sustainable quality jobs, it is necessary but not sufficient to provide training, develop entrepreneurial capacities and expand the reach of social finance institutions. As highlighted in Chapter II, economic development policies are essential, including local and subregional economic development policies that explicitly address the issues and constraints of the informal economy. Local economic development (LED) policies can play an important role in this respect. They are especially relevant for the informal economy since they are based on a bottom-up participatory process of dialogue and public-private partnerships. Through this process all stakeholders in the local economy jointly design and implement a development strategy which builds on the local endogenous potential and the competitive advantage of the area concerned.[43] LED policies usually focus on employment creation through micro- and small enterprise development and can thus help workers in the informal economy to organize themselves, facilitate their access to skills training, business services and finance and improve their living and working environment. LED policies can also be linked to area-based schemes of micro-insurance for those in the informal economy.[44]

Often LED policies result in the establishment of local economic development agencies. Over the last ten years, the ILO has been actively involved in the promotion and establishment of such agencies in countries in Central America, southern Africa and south-eastern Europe, among others. These interventions have paid special attention to the needs of workers in the informal economy. For example, an ILO-led intervention in Mozambique trained and organized informal women entrepreneurs in bee-keeping and sunflower-oil production.

Workers in the informal economy can also benefit from employment-intensive infrastructure works which use the well-tested ILO approach to infrastructure development. The ILO's Employment-Intensive Investment Programme (EIIP) aims at mainstreaming employment objectives in public investment policy in infrastructure

[43] See, for example, S. White; M. Gasser: *Local economic development: A tool for supporting locally owned and managed development processes that foster the global promotion of decent work*, discussion paper (Geneva, ILO, 2001).

[44] See the section on "Encouraging micro-insurance and area-based schemes" in Chapter IV.

and construction, and has shown that it is possible to simultaneously create jobs and introduce decent working conditions, importantly through substituting labour-intensive, locally produced techniques and technologies for imported capital-intensive machinery. Initially concerned mainly with the construction and maintenance of rural roads, the approach has since been applied to urban informal settlement upgrading. In particular, it has focused on those small and medium-sized enterprises, whether registered or not, that work with a considerable amount of casual labour – up to 100 or more workers – but do not respect existing labour legislation. Their high labour intensity and the increasingly competitive market environment entail serious risks of workers' exploitation and abuse. It is possible, however, to upgrade such "grey zone" enterprises to levels of productivity which can compete with equipment-intensive large-scale enterprises, as several ILO projects have demonstrated. Conditions of success include (a) a training process covering management and technical qualifications, choice of technology, labour issues and working conditions; (b) adaptation of the contract system so as to allow access of labour-based contractors to public tender, and also to ensure social protection of the workers; and (c) action at the policy level to shift an increasing share of public investment resources towards employment-generating and poverty-reducing programmes. Such an approach has been successfully implemented in Cambodia, Madagascar, Namibia and the United Republic of Tanzania, to cite just a few, in cooperation with employers' and workers' organizations.

SUGGESTED POINTS FOR DISCUSSION

1. Is the current concept of "informal sector" or "informal economy" adequate as a basis for protecting workers, addressing the needs of employers and others conducting business or creating employment?
2. What are the main distinguishing characteristics and features – positive or negative – of the situations of the economic units and workers concerned?
3. What are the causes of and reasons for engaging in these activities or working in these situations? What are the barriers to entry into the mainstream or "formal" economic and social protection system?
4. What means (e.g. policies, institutions, processes, etc.) best address these situations? How can these barriers to entry be removed, while continuing to generate employment?
5. What are the respective roles of national and local governments, as well as of employers' and workers' organizations, in addressing these situations? What are the challenges and what contributions can be made with regard to meeting the representational needs of workers, employers and others conducting business?
6. What should be the priorities for the ILO's policy, research and technical assistance work with regard to these workers and employers, with the aim of contributing to the overall goal of decent work?

ANNEX

MATRIX AND GLOSSARY OF TERMS

The term and indeed the concept of the "informal sector" was first popularized by the ILO in the 1970s. It was used to refer mainly to survival activities of those working in the marginal or peripheral segments of the economy. The 1991 Report of the Director-General to the International Labour Conference defined the informal sector as

> very small-scale units producing and distributing goods and services, and consisting largely of independent, self-employed producers in urban areas of developing countries, some of whom also employ family labour and/or a few hired workers or apprentices; which operate with very little capital, or none at all; which utilize a low level of technology and skills; which therefore operate at a low level of productivity; and which generally provide very low and irregular incomes and highly unstable employment to those who work in it.[1]

While this description still holds true in most developing countries today, it fails to capture the various forms of informality and informalization that have since grown in significance.

In 1993, the Fifteenth International Conference of Labour Statisticians (15th ICLS) adopted an international statistical definition of the informal sector, which was subsequently included in the revised United Nations System of National Accounts (1993 SNA). In order to be able to identify the informal sector separately in the accounts for purposes of quantifying its contribution to the gross domestic product, it was agreed that it should be defined in terms of characteristics of the production units (enterprises) in which the activities take place (enterprise approach) rather than in terms of the characteristics of the persons involved or of their jobs (labour approach).

Since an enterprise-based definition of the informal sector would not be able to capture all dimensions of informal employment, it was suggested to classify workers in the formal and informal sectors by their status in employment. This should be done on the basis of the groups identified in the International Classification of Status in Employment (ICSE-93) adopted by the 15th ICLS, but at a level of disaggregation sufficient to identify relevant forms of informal employment. However, for the time being there is no internationally agreed set of subcategories of status in employment referring to informal employment, as this crucial aspect of the phenomenon has not yet been defined and adequately addressed in statistics at the national level.[2]

For three decades, the term "informal sector" has been found useful by academics and development specialists alike. It is used in a number of international labour standards and observations by the ILO Committee of Experts on the Application of Conventions and Recommendations, in official statistics and in national policies and practices. Therefore, this report does not propose eliminating the use of the term "informal sector". Where it has been used in an instrument or official observation, this report follows suit. However, as explained in Chapter I, the term "informal sector" could have misleading connotations when used in some contexts. For this reason, what this annex attempts to do is to push for g..ater conceptual and definitional

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[1] ILO: *The dilemma of the informal sector*, Report of the Director-General, International Labour Conference, 78th Session, Geneva, 1991, p. 4.

[2] This section draws on R. Hussmanns: *Informal sector and informal employment: Elements of a conceptual framework*, paper presented at the Fifth Meeting of the Expert Group on Informal Sector Statistics (Delhi Group), New Delhi, 19-21 Sep. 2001.

clarity in order to develop a sounder basis for designing policies and actions than has been possible in the past.

The report refers to "informal economy", "informal employment", "informal sector" and "unprotected work". The term "informal economy" is used to indicate the conceptual whole of informality covering both production relationships and employment relationships. While the term "informal economy" embodies the sum of all the parts, a number of terms have been carefully defined to refer to the various components of it which reflect relevant dimensions of informality. In order to provide a visual reference, a two-dimensional matrix (table A.1) has been developed, illustrating how the two major dimensions (enterprise and employment) of the informal economy interact. The matrix also provides a possible framework for mapping the informal economy, in that it relates the statistical concept of "employment in the informal sector" to the broader concept of informal employment.

Given the existence of multiple job holding, jobs rather than employed persons (workers) were chosen as the observation units for employment.[3] Employed persons hold jobs that can be described by various job-related characteristics, and these jobs are undertaken in production units (enterprises) that can be described by various enterprise-related characteristics. Thus the matrix provides a framework which makes it possible to disaggregate total employment according to two different dimensions: type of production unit (matrix rows) and type of job (matrix columns). Type of production unit is defined in terms of legal organization and other enterprise-related characteristics, while type of job is defined in terms of status in employment and other job-related characteristics. Matrix cells shaded in dark grey refer to jobs that by definition do not exist in the type of production unit in question.[4] Cells shaded in light grey refer to jobs which are found in the type of production unit in question, but which are not relevant to our current concerns.[5]

The remaining unshaded cells are the focus of our concern – they refer to types of jobs that represent different segments of the informal economy and hence require different research orientations and policy actions. Indeed, each of these cells can and should be further disaggregated to identify specific types of jobs or production units for analysis and policy-making. This obviously has to be done at the country level, at the rural/urban level, for geographical areas within a country and, where relevant, for specific localities within urban areas.

In the rows of the matrix, production units are grouped by type, and a distinction is drawn between formal sector enterprises, informal sector enterprises and households. According to the criteria adopted by the 15th ICLS, informal enterprises are defined as private unincorporated enterprises[6] below a certain size in terms of employment and/or not registered under commercial or business law. Formal and informal enterprises are not self-contained segments, but rather part of a continuum, with "sectors" being delineated as categories for the purpose of measurement and describing domains which make it possible to focus research and policy. Households as production units include households producing goods for their own final use (e.g. subsistence farming, do-it-yourself construction of own dwellings), and those employing paid domestic workers (maids, laundresses, gardeners, watchmen, drivers, etc.).

In the columns of the matrix, jobs are distinguished according to status in employment categories and according to their formal or informal nature. For the time being, there are no internationally agreed guidelines for the definition of informal jobs.

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[3] Note that a person can have a formal job while at the same time holding one or more informal jobs. It is also possible to hold a number of informal jobs simultaneously.

[4] For example, since households are non-market production units rather than enterprises, there cannot be contributing family workers working in them.

[5] Examples are own-account workers and employers owning formal enterprises, employees with formal jobs in formal enterprises and members of formally established producers' cooperatives.

[6] See "Informal sector enterprises" in the glossary below.

Table A.1. Matrix: A conceptual framework for the informal economy

Production units by type	Jobs by status in employment									
	Own-account workers		Employers		Contributing family workers	Employees		Members of producers' cooperatives	
	Informal	Formal	Informal	Formal	Informal	Informal	Formal	Informal	Formal
Formal sector enterprises					1	2			
Informal sector enterprises[a]	3		4		5	6	7	8	
Households[b]	9					10			

Notes: [a] As defined by the Fifteenth International Conference of Labour Statisticians in 1993. [b] Households producing goods for their own final use and households employing domestic workers.

Dark grey cells refer to jobs that by definition do not exist in the type of production unit in question.

Light grey cells refer to jobs which exist in the type of production unit in question but which are not relevant to our concerns.

The unshaded cells are the focus of our concern – they refer to types of jobs that represent the different segments of the informal economy.

Cells 1 and 5: Contributing family workers: no contract of employment and no legal or social protection arising from the job, in formal entrprises (cell 1) or informal enterprises (cell 5). (Contributing family workers with a contract of employment, wage, social protection, etc. would be considered employees in formal employment.)

Cells 2, 6 and 10: Employees who have informal jobs, whether employed by formal enterprises (cell 2) or informal enterprises (cell 6) or as paid domestic workers by households (cell 10).

Cells 3 and 4: Own-account workers (cell 3) and employers (cell 4) who have their own informal enterprises. The informal nature of their jobs follows directly from the characteristics of the enterprise they own.

Cell 7: Employees working in informal enterprises but having formal jobs. (This may occur, for example, when enterprises are defined as informal using size as the only criterion.)

Cell 8: Members of informal producers' cooperatives.

Cell 9: Producers of goods for own final use by their household (e.g. subsistence farming).

Source: Hussmanns, op. cit.

The specific cells that could be used for mapping the informal economy can be described as follows:

Cells 1 and 5: Contributing family workers, irrespective of whether they work in formal enterprises (cell 1) or informal enterprises (cell 5). The informal nature of their jobs is due to the non-existence of a contract of employment and the lack of legal or social protection arising from the job. (Contributing family workers with a contract of employment, wage, social protection, etc., would be considered employees in formal employment and their family status would then be irrelevant.)

Cells 2, 6 and 10: Employees who have informal jobs, whether employed by formal enterprises (cell 2), informal enterprises (cell 6) or as paid domestic workers by households (cell 10). Employees are considered to have informal jobs if their employment relationship is not subject to standard labour legislation, taxation, social protection or entitlement to certain employment benefits (e.g. advance notice of dismissal, severance pay, paid annual or sick leave, etc.). Reasons may include the following: the employee or the job is undeclared; the job is casual or of a short duration; the hours of work or wages are below a certain threshold; the employer is an unregistered enterprise or a person in a household; or the employee's place of work is outside the premises of the employer's or customer's enterprise.

Cells 3 and 4: Own-account workers (cell 3) and employers (cell 4) who have their own informal enterprises. The informal nature of their jobs follows directly from the characteristics of the enterprises which they own.

Cell 7 (light grey): Employees working in informal enterprises but holding formal jobs. (Such cases may occur when enterprises are defined as informal using size as the only criterion, or where there is no administrative link between the registration of employees and the registration of their employers. However, their number is likely to be small.)

Cell 8: Members of informal producers' cooperatives. The informal nature of their jobs follows directly from the characteristics of the cooperative of which they are members.

Cell 9: Own-account workers producing goods for own final use by their household, for example, subsistence farmers and households engaged in do-it-yourself construction of their own dwellings. (Although excluded from the 15th ICLS definition of the informal sector, they are of particular relevance to the rural employment situation and therefore included in informal employment.)

Within the informal economy (cells 1 to 10), employment in the informal sector (as defined according to the 1993 ICLS) would encompass the sum of cells 3 to 8, and informal employment the sum of cells 1 to 6 and 8 to 10.

The basis used for distinguishing informal jobs is that they are outside the framework of regulations, either because (a) the enterprises in which the jobs are located are too small and/or not registered under commercial law; or (b) labour legislation does not specifically cover or has not been tested in application to "atypical" jobs (such as casual, part-time, temporary or home-based jobs) or to subcontracting arrangements in production chains (such as industrial outwork) so that the jobs (and therefore the workers) are unprotected by labour legislation.

But what is very important to understand is why these informal jobs are not protected under labour legislation, whether they can and should be formalized and protected, and who should be held accountable. This clarification is especially important with reference to matrix cells 2 and 6. The idea of labour law, as distinct from commercial law, is that it is meant to address situations where there are contracts among unequals, that is between the worker and the employer. What labour law does is to create certain protections for the worker and to impose certain obligations on the employer in order to make up for the difference in power between the two parties, or in other words for the dependence of one party on the other. In order for most labour laws to be implemented, however, it is necessary to recognize the existence of an employment relationship: in most countries, there has to be a clear employer-employee relationship.

Although the definition and criteria for recognizing an employment relationship vary in national law and practice, the general principles involved centre on whether work is being performed under conditions of subordination and dependency and the extent to which the

worker shares the risks and rewards of the activity. Based on this idea of dependence in the employment relationship, it could very well be argued – and has been argued and recognized in many countries – that temporary, part-time and casual workers are dependent workers, do have an employer and therefore should be protected by labour legislation. In the same vein, homeworkers are often not truly self-employed but "disguised wage workers" engaged in a range of outsourcing and subcontracting arrangements. They are often treated as self-employed who are not entitled to social protection and other benefits, but in reality these workers may be totally dependent on one single enterprise for their equipment, raw materials and orders. Their service contract, whether formal or informal, should in reality be an employment contract. In some cases, their ultimate employers can be traced to multinational corporations or lead firms in other countries.

The matrix also graphically illustrates how enterprises and jobs actually consist of degrees of formality and informality, along a continuum rather than mutually distinct sectors. The reason is that formality consists of multiple legal requirements and regulations, often depending on the size of the establishment, below a certain threshold of which (usually five or ten employees) an enterprise may be exempt. Similarly, jobs may or may not conform to certain requirements such as contracts, leave with pay, social security deductions, etc. Self-employed persons are often exempt from some of these requirements, but if they are self-employed in the formal economy, they are treated as legitimate businesses and often receive protection from the law, including some parts of labour law, such as social security. Informality refers, then, to non-compliance by either enterprises or workers with all or some of the rules and regulations in the body of national or local legislation – commercial and/or labour legislation.[7]

If we accept the idea of a continuum of formality and informality in enterprises and employment, further distinctions need to be made – even though these are not illustrated in the matrix in table A.1. Despite non-compliance with many regulations, clearly the vast majority of jobs and enterprises in the informal economy are not involved in the production of goods and services whose sale, distribution or mere possession are forbidden by law. Neither are informal activities generally deliberately concealed. In many cases, people may not actually be aware of bureaucratic or regulatory requirements, while in others, these requirements may be so cumbersome and costly that compliance is virtually impossible.

GLOSSARY OF TERMS USED IN THE REPORT

Enterprise: A unit engaged in the production of goods or services for sale or barter. In terms of legal organization, enterprises may be corporations (including quasi-corporate enterprises), non-profit institutions, unincorporated enterprises owned by government units, or private unincorporated enterprises. The term "enterprise" is used in a broad sense. It covers not only production units which employ hired labour, but also those that are owned and operated by individuals working on their own account as self-employed persons, either alone or with the help of unpaid family members. The activities may be undertaken inside or outside the enterprise owner's home, and they may be carried out in identifiable premises or without fixed location. Accordingly, self-employed street vendors, taxi drivers, home-based workers, etc., are all considered enterprises.

Households (as production units): Households producing goods for their own final use (e.g. subsistence farmers and households engaged in do-it-yourself construction of their own

[7] Non-compliance with regulations is not the only characteristic of informal enterprises or workers. As emphasized in Chapter I, another important characteristic is their vulnerability, because they receive little or no legal or social protection and have limited access to economic resources or social benefits.

dwellings), and those employing paid domestic workers (maids, laundresses, watchmen, gardeners, drivers, etc.).

Informal sector enterprises (informal enterprises): As defined by the 15th ICLS (1993), informal sector enterprises are private unincorporated enterprises[8] whose size in terms of employment is below a certain threshold to be determined according to national conditions (usually five or ten workers), and/or which are not registered under specific forms of national legislation, such as factories or commercial acts, tax or social security laws, professional groups regulatory acts, or similar acts, laws or regulations established by national legislative bodies (as distinct from local regulations governing trade licences or business permits). However, for the purposes of this report, local regulations are included for reasons elaborated on in Chapter III. This report uses the term "informal enterprises" as synonymous with "informal sector enterprises".

Sector: For statistical purposes, a sector groups together similar kinds of enterprises which, in terms of their economic objectives, functions and behaviour, have certain characteristics in common. The result is not necessarily a homogeneous set of enterprises. For the purposes of analysis and policy-making, it can thus be useful to further divide a sector into more homogeneous subsectors.

Informal sector: It encompasses the total of all informal enterprises as defined above, and is distinct from the employment relationship dimension.

Employment: Can be defined from either the supply or the demand side of the labour market. From the supply side, it refers to the total number of employed persons during a given reference period, as defined by the 13th ICLS (1982). From the demand side, employment refers to the total number of filled jobs which, owing to the existence of multiple job holding, tends to be higher than the total number of employed persons. Employment includes paid employment as well as self-employment, including unpaid work in an enterprise owned and operated by another member of the household or family, and the production of goods for own final use by households. The production of services (e.g. housework, caring for family members) for own final consumption by households is excluded.

Employment in the informal sector: All persons who, during a given reference period, were employed in at least one informal enterprise, irrespective of their status in employment and whether it was their main or a secondary job (sum of cells 3 to 8).

Job: A set of tasks and duties meant to be executed by one person. A person can have more than one job at a time (e.g. a teacher driving a taxi during evening hours and weekends).

Status in employment: Refers to the type of explicit or implicit contract of employment that the incumbent of a job has with other persons or organizations. The basic criteria for classification are the type of economic risk, including the strength of attachment between the incumbent and the job, and the type of authority that the job incumbents have over enterprises and other workers. The 1993 ICSE distinguishes six groups: employees; employers; own-account workers; members of producers' cooperatives; contributing family workers; and workers not classifiable by status.

Informal job: Own-account workers, employers and members of producers' cooperatives are considered to have an informal job if their enterprise is an informal enterprise. All contributing (unpaid) family workers are considered to have informal jobs, irrespective of the characteristics of the enterprise for which they work. Activities of persons engaged in the production of goods for own final use by their household (e.g. subsistence farmers) are also considered informal jobs. Employees (including paid domestic workers employed by households) are considered to have informal jobs if their employment relationship is not subject to standard labour

[8] Enterprises owned by individuals or households that are not constituted as separate legal entities independently of their owners, and for which no complete accounts are available that would permit a financial separation of the production activities of the enterprise from the other activities of its owner(s).

legislation, taxation, social protection or entitlement to certain employment benefits (e.g. advance notice of dismissal, severance pay, paid annual or sick leave) for reasons including the following: the job or employee is undeclared (the latter refers, for example, to the employment of illegal immigrants); the job is casual or of a short duration; hours of work or wages are below a certain threshold; the employer is an unregistered enterprise or a person in a household; or the employee's place of work is outside the premises of the employer's or customer's enterprise.

Informal employment: The total number of informal jobs, whether carried out in formal or informal enterprises, or the total number of persons engaged in informal jobs during a given reference period. It comprises the activities of own-account workers and employers in informal enterprises; the activities of all contributing family workers (whether working in formal or informal enterprises); the employment of all employees in informal jobs in formal enterprises, informal enterprises or households; members of informal producers' cooperatives; and the activities of persons engaged in the own-account production of goods for own final use by their households (sum of cells 1 to 6 and 8 to 10).

A COUNTRY-SPECIFIC EXAMPLE BASED ON THE MATRIX: MEXICO

To illustrate the conceptual framework for the informal economy presented above, table A.2 shows employment data for Mexico for the year 2000. Some differences in lay-out can be noted in this table as compared to the original matrix, owing to the manner in which data were collected. For example, the second and third rows have been merged as the data provided do not allow differentiation between households and informal enterprises. For the same reason, producers' cooperatives are included in the broader "employee" category.

In total, there are about 39 million employed persons in Mexico. Approximately two-thirds (25.7 million) of the total employed persons are male, and one-third (13.3 million) female. Men are much more likely than women to be employers, but also to be own-account workers. By contrast, women are more likely than men to be contributing family workers.

According to ILO data, there are 25.5 million persons employed in the informal economy: 17 million (67 per cent) men and 8.5 million (33 per cent) women. Employment in the informal economy represents about two-thirds of total employment for both men and women. The two largest segments are own-account workers in informal enterprises (36 per cent) and employees with informal jobs in informal enterprises (25 per cent). For women employed in the informal economy, the share of own-account workers and employers in informal enterprises, as well as the share of employees with informal jobs, whether in formal or informal enterprises or private households, is lower than for men employed in the informal economy. By contrast, the share of contributing family workers (whether in formal or informal enterprises) in the informal economy is higher for women than for men, as is the share of employees with formal jobs in informal enterprises or private households.

Of the total employed persons 56 per cent work in informal sector enterprises,[9] and 44 per cent in formal sector enterprises. Three-fifths of the employed have informal jobs, and the other two-fifths have formal jobs. Over 80 per cent of those with informal jobs work in informal enterprises, while almost 90 per cent of those with formal jobs work in formal enterprises. More than one-fifth of those employed in formal enterprises, and more than nine-tenths of those working in informal enterprises or private households, have informal jobs. This picture is very similar for men and women.

[9] The figure is higher than the one provided in table A.2 because of the inclusion of persons engaged in agricultural activities and paid domestic workers. The available data made it necessary to combine informal sector enterprises and households producing goods for their own final use or employing domestic workers.

Table A.2. Employed persons in Mexico, 2000

Production units by type	Number of employed persons (thousands)[a]								
	Total (aged 12 years and above)		Own-account workers		Employers		Contribut. family workers	Employees[b]	
	Informal	Formal	Informal	Formal	Informal	Formal	Informal	Informal[c]	Formal
Both sexes									
Formal sector enterprises	3 785.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	262.5	3 522.5	[illegible]
Informal sector enterprises[d] and households[e]	20 071.7	[illegible]	9 111.3	[illegible]	1 385.6	[illegible]	3 294.0	5 370.9[f] 909.9[g]	[illegible]
Male									
Formal sector enterprises	2 537.8	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	132.1	2 405.7	[illegible]
Informal sector enterprises[d] and households[e]	13 627.2	[illegible]	6 328.6	[illegible]	1 159.1	[illegible]	1 664.3	4 390.1[f] 85.1[g]	[illegible]
Female									
Formal sector enterprises	1 247.2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	130.4	1 116.8	[illegible]
Informal sector enterprises[d] and households[e]	6 444.5	[illegible]	2 782.7	[illegible]	226.6	[illegible]	1 629.7	980.8[f] 824.8[g]	[illegible]

Notes: [a] Agriculture included. [b] Including members of producers' cooperatives. [c] Employees without any social protection. [d] Private unincorporated enterprises (excluding quasi-corporations) with fewer than 16 persons engaged (manufacturing) or fewer than six persons engaged (other branches of economic activity). [e] Households producing goods for their own final use and households employing domestic workers. [f] Employees of informal sector enterprises. [g] Domestic employees.

Source: ILO Bureau of Statistics on the basis of data provided by the Instituto Nacional de Estadística, Geografía y Informática (INEGI), Mexico.

The vast majority (over 95 per cent) of persons employed in formal enterprises are employees. Thus, the formal sector is a wage employment sector. By contrast, the informal sector is a self-employment sector: 42 per cent (men: 44 per cent, women: 38 per cent) of the persons working in informal enterprises are own-account workers, 6 per cent (men: 8 per cent, women: 3 per cent) are employers, and 15 per cent (men: 12 per cent, women: 22 per cent) are contributing family workers. Moving from the enterprise dimension to the job dimension, it can be seen that for both men and women informal employment is a mixture of self-employment and wage employment jobs.

Less than a third of own-account workers are women. Virtually all own-account workers, whether male or female, have informal enterprises. Female employers represent 16 per cent of all employers. Only 16 per cent of employers have formal enterprises; for female employers,

the percentage of those with formal enterprises drops to 12 per cent. More than 90 per cent of contributing family workers work in informal enterprises. Two-thirds of employees are employed in formal enterprises, and the remaining third in informal enterprises or private households. The distribution by type of enterprise is almost the same for male and female employees. Formal enterprises employ 89 per cent of the employees with formal jobs, but also 36 per cent of the employees with informal jobs.

Two-fifths of all employees are in informal jobs, defined in this example as jobs not providing any social protection. However, there are considerable differences by type of production unit and sex. Of the employees of formal enterprises, one-fifth have informal jobs. Furthermore, only one-fifth of the employees working in informal enterprises have any form of social protection; the rest do not. These figures show that the type of enterprise is indeed an important dimension for analysis of the informal economy.

Male employees are more likely to have informal jobs (43 per cent) than are female employees (34 per cent), especially when they work in informal enterprises. Of the employees working in informal enterprises 85 per cent of the male employees but "only" 71 per cent of the female employees do not have any form of social protection. On the other hand, female domestic employees are more likely to have informal jobs (68 per cent) than male domestic employees (57 per cent).

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